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Nice Guys (and Gals) Finish First: Ethical Leadership and Organizational Trust, Satisfaction, and Effectiveness

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In this study we examined the relationship between ethical leader behavior and organizational trust, satisfaction with organizational outcomes, and perceived organizational effectiveness. A survey of working adults revealed that perceptions of ethical leadership are positively related to collective trust levels. Those who believed that their leaders acted as moral persons and moral managers rated their organizations as more competent, open, concerned for employees, and reliable while identifying more strongly with their employers. They also reported higher satisfaction with organizational outcomes and considered their organizations to be more effective. Direct supervisors were perceived as more ethical than CEOs. These findings provide further evidence that ethical leaders also function as effective leaders. Implications for the study and practice of leadership are identified.

Key words: effectiveness, ethical leadership, satisfaction, trust

Ethics and effectiveness are often treated as incompatible. Convinced that "nice guys finish last," many believe that leaders have to set aside their ethical standards to succeed in the rough-and-tumble world of business (Brown, 2007). To support their position, they point to the example of prominent executives like Oracle's founder and CEO, Larry Ellison. The billionaire has been described as a "first-class SOB" for his ruthless treatment of employees, customers, and competitors alike (Mendleson, 2010, 28).

While unethical leaders do succeed, a growing body of evidence suggests that ethical leaders are frequently more, not less, effective than their less ethical counterparts. Ethical leaders are rated as more promotable and effective (Brown, 2007; Rubin, Dierdorff, & Brown, 2010). Their employees are more satisfied and committed to the organization, more willing to put in additional effort, more willing

to report problems to management, and more productive (Avey, Palanski, & Walumbwa, 2011; Brown & Mitchell, 2010; Khuntia & Suar, 2004; Mayer, Kuenzi, Greenbaum, Bardes, & Salvador, 2009; Piccolo, Greenbaum, Den Hartog, & Folger, 2010; Ponnu & Tennakoon, 2009; Toor & Ofori, 2009; Walumbwa et al., 2011). Groups led by moral leaders are less likely to engage in theft, sabotage, and other deviant behaviors, while demonstrating higher levels of organizational citizenship behavior that goes beyond the requirements of the job (Brown & Trevino, 2006b; Walumbwa et al., 2011). In addition, ethical leadership enhances perceptions of ethical climate, which encourages job commitment and satisfaction (Neubert, Carlson, Kacmar, Roberts, & Chonko, 2009).

The objective of this study was to add to our understanding of the relationship between ethical leadership and effective leadership by determining if ethical leader behavior is linked to organizational trust. Establishing such a connection would be significant because trust has emerged as one of the most important variables in organizational research. Investigators in a variety of social science disciplines have demonstrated the benefits of trust in the organizational context (Kramer & Lewicki, 2010). Trust fosters accurate communication and cooperation; lowers transaction and litigation costs; reduces turnover; encourages innovation, organizational learning, and work effort; and fosters satisfaction and commitment (Bruhn, 2001; Driscoll, 1978; Grant & Sumanth, 2009; Kramer, 1999; Shockley-Zalabak & Ellis, 2006; Shockley-Zalabak, Morreale, & Hackman, 2010; Tan & Tan, 2000). High trust levels are also related to improved economic performance (Shockley-Zalabak et al., 2010).

Not only is trust essential to organizational success, but leaders also play a critical role in the development of organizational trust or distrust (Bruhn, 2001). Followers pay particularly close attention to the words and actions of leaders who have significant power to shape the organization's climate and culture (Kramer, 2010). Trustworthy leaders encourage greater follower commitment, reduced turnover, better job performance, and more frequent citizenship behaviors (Davis & Rothstein, 2006; Davis, Schoorman, Mayer, & Tan, 2000; Dirks & Ferrin, 2002; Dirks & Skarlicki, 2004; Krosgaard, Brodt, & Whitener, 2002). When followers

trust their leaders, they are also more likely to trust their organizations (Tan & Tan, 2000). Engaging in moral behavior may be one way for leaders to demonstrate their trustworthiness while creating trusting climates. Those working under ethical leaders might also be more satisfied and more likely to rate their organizations as effective.

This article describes a project designed to test the relationship between ethical leadership and three positive organizational outcomes: organizational trust, satisfaction with organizational outcomes, and perceived organizational effectiveness. The study findings add to the growing body of evidence demonstrating that ethical leaders are also effective leaders.

Ethical Leadership and Organizational Trust

Trevino and her colleagues surveyed senior executives and ethics officers to determine how executives develop a reputation for ethical leadership (Trevino, Brown, & Hartman, 2003; Trevino, Hartman, & Brown, 2000). They concluded that ethical leadership consists of "the demonstration of normatively appropriate conduct through personal actions and interpersonal relationships, and the promotion of such conduct to followers through two-way communication, reinforcement, and decision-making" (Brown, Trevino, & Harrison, 2005, 120). According to this definition, the practice of ethical leadership is a two-part process. To begin, ethical leaders function as *moral persons* who behave ethically while carrying out their leadership responsibilities. They are perceived as honest, caring, and principled individuals who make equitable decisions. However, personal morality is not enough to create an ethical culture. Distant followers don't have first-hand knowledge of the personal reputation of top managers. Messages about ethics will be drowned out by other priorities like making a profit unless leaders make them salient. As a result, ethical leaders must also function as *moral managers* who promote ethical conduct in followers through modeling desirable behavior, instituting equitable policies, and reinforcing appropriate behavior through rewards and punishments (Brown & Trevino, 2006a).

In this project, *organizational trust* is defined as the collective set of positive expectations members hold about the intents and behaviors of multiple organizational stakeholders, which are based on roles, experiences, relationships, and interdependencies (Shockley-Zalabak, Ellis & Winogard, 2000). These expectations shape how vulnerable individuals and groups will be when interacting with one another (Shockley-Zalabak, Ellis, & Cesaria, 2000). Together, organizational members develop a shared or aggregate level of trust expectations that become part of the group's culture.

Individuals may enter organizations with a predisposition to trust based on (a) their identification with other in-group members, (b) expectations that others in the group will reciprocate their trust, (c) belief that those occupying organizational roles have expertise, and (d) the presence of formal rules that govern behavior (Kramer, 2010; Kramer, Brewer, & Hanna, 1996; Kramer & Lewicki, 2010). Once they join the group, they determine if the presumption of trust is warranted through their interactions with peers, supervisors, and top leaders.

Collective trust is composed of several factors or dimensions. Cummings and Bromiley (1996) identify three components of organizational trust. Members judge an organization to be trustworthy if the group (1) makes good faith efforts to keep its commitments, (2) is honest when negotiating such commitments, and (3) does not take unfair advantage of members even when provided with the opportunity to do so. Shockley-Zalabak, Morreale, and Hackman (2010) identify five dimensions of organizational trust climates: competence, openness, concern, reliability, and identification. *Competence* is the collective perception that leadership (both supervisory and top management) is effective and that the organization can survive. Organizational survival depends on such factors as the ability to create new products rapidly, meet competitive pressures, and find new markets. *Openness* or honesty is strongly linked to trust in organizational leadership. Employees who believe that management shares information and is sincere are much more likely to put their trust in the organization as a whole. *Concern* reflects caring and empathy. Concerned leaders (and followers) don't

take advantage of the vulnerability of others. *Reliability* describes perceptions of consistent and dependable behavior. Those organizations that match their words and actions generate trust; those that fail to "walk the talk" undermine trust. *Identification* describes the feeling of affiliation and association with the organization.

Hypotheses

There is reason to expect that ethical leadership is tied to several dimensions of organizational trust. To develop a reputation as an ethical leader, an individual must be seen as trustworthy—honest, consistent, and considerate (Brown, Trevino, & Harrison, 2005). Acting as moral managers, ethical leaders establish positive connections with followers, expressing concern and practicing two-way communication. They are seen as approachable, provide information about the values and principles behind important organizational decisions, solicit input, and practice effective listening skills (Trevino et al., 2003). These behaviors appear closely tied to the openness, concern, and reliability dimensions of organizational trust. Walumbwa et al. (2011) also found that ethical leadership is positively related to identification with the organization.

Ethical leaders also appear to foster organizational trust by acting as moral managers who model desirable behavior while setting equitable polices and reinforcing moral behavior. Followers can count on their leaders to act with integrity, to "walk their talk." Consistent behavior should foster perceptions of reliability and openness (honesty) and reinforce the perception that the organization will honor its commitments. Fair policies and consistent punishment of ethical misbehavior signal that the organization will not take advantage of members and can be relied upon to carry out its promises. Such strategies also enhance perceptions of organizational justice. Employees who believe they are fairly treated respond with greater trust in their leaders, particularly their direct supervisors (Aryhee, Budhwar, & Chen, 2002), which contributes to trust in the organization. For the reasons cited above, the following hypothesis was proposed:

Hypothesis 1: Ethical leadership is positively related to organizational trust.

Previous investigations have demonstrated positive relationships between organizational trust and satisfaction with organizational outcomes and effectiveness (Ellis & Shockley-Zalabak, 2001; Hackman & Shockley-Zalabak, 2008; Shockley-Zalabak, Ellis, & Winogard, 2000). The higher the level of aggregate trust the more likely that members will be satisfied with such factors as their pay and their progress and future in the organization. They also perceive that their organizations demonstrate concern for employees, communicate effectively, and produce quality goods and services. At the same time, those working in high trust climates rate their organizations as more effective on such indicators as productivity, creativity, and performance. We hypothesize that a similar relationship will exist between ethical leadership and satisfaction with organizational outcomes and ratings of organizational effectiveness.

Hypothesis 2: Ethical leadership is positively related to satisfaction with organizational outcomes.

Hypothesis 3: Ethical leadership is positively related to perceptions of organizational effectiveness.

According to construal level theory, psychological distance (temporal, spatial, social) influences moral judgment (Eyal, Liberman, & Trope, 2008). More distant situations and behaviors are framed in abstract terms while proximal events are evaluated in a more detailed manner. As a consequence, moral judgments of distant situations and actors are more extreme or harsh than evaluations of less distant people and events (Agerström & Bjorklund, 2009; Mencl & May, 2008). Evaluators are more lenient when judging those they know because they are more likely to take into account such factors as the context and the motivations of the individual. Construal level theory provides one explanation for why survey respondents may rate their organizational leaders as much more ethical than corporate leaders in general. In the only previous study that specifically examined the relationship between social distance and ethical leadership, evaluators gave higher ethical leadership ratings to leaders who were personal

acquaintances than to leaders they did not know (Tumasjan & Strobel, 2010). Based on this evidence, the following hypothesis was proposed.

Hypothesis 4: Direct supervisors are perceived as more ethical than top managers.

Method

Sample

The study used surveys from 181 working adults in the Northwestern United States. Participants were either currently enrolled in a master's degree program at one university or were MBA alumni of a second university. Survey packets were completed during class time and through an online survey. Of the participants who identified their gender, 83 (45.9%) of the respondents were female, and 89 (53.6%) were male. The majority of participants—82.9% of the sample—ranged in age from 30 to 59, and 91.5% had been employed by their current organization for over six months. Participants worked in a variety of sectors, including business, government, education, health care, military, religious, and nonprofit.

Measures

Organizational Trust Inventory. This instrument generates an overall trust score as well as scores on each of the five dimensions of organizational trust: competence, openness/honesty, concern, reliability, and identification. On a five-point scale (1 = very little, 5 = very great), participants indicated how much they trusted their organization. For more information on the development of this scale, see Shockley-Zalabak & Ellis (2006) and Shockley-Zalabak et al. (2010).

Satisfaction with Organizational Outcomes. A five-point Likert-type scale (1 = very little to 5 = very great) measured satisfaction with organizational outcomes by asking respondents to rate satisfaction on 17 organizational outcomes: job, pay, his or her progress in the organization, opportunity to make a difference, the organization's concern for members' welfare, communication efforts of the organization, the organization compared to similar organizations,

efficiency, quality of products/services, capacity of the organization to obtain its objectives, use of technology, management, capacity of the organization to change, the future of the organization, his or her future in the organization, organizational strategy, and capability of employees. This scale has been used previously in organizational trust research (Ellis & Shockley-Zalabak, 2001).

Perceived Organizational Effectiveness. The Organizational Effectiveness Scale (OES) is composed of indicators drawn from organizational effectiveness literature (Morley, Shockley-Zalabak, & Cesaria, 1997). These include productivity, adaptation, creativity, performance, employee satisfaction, growth, profit, survival, quality, strategic planning, goal achievement, customer/client satisfaction, and resource utilization. Respondents indicated on a scale of 0 (completely unachieved) to 4 (completely achieved) how well their organization had met each objective.

Ethical Leadership Scale. Perceptions of ethical leadership were measured through the Ethical Leadership Scale (ELS) (Brown et al., 2005). The ELS consists of 10 items that measure perceptions of leaders as moral individuals (e.g., "Sets an example of how to do things the right way in terms of ethics.") and as moral managers (e.g., "Disciplines employees who violate ethical standards.") on a scale of 1 (strongly disagree) to 5 (strongly agree). Participants completed two versions of the instrument, one with their organization's CEO as referent, the other with their direct supervisor as referent.

Results

All four instruments demonstrated high reliability, generating the following Chronbach alphas: Organizational Trust Inventory (.949), Satisfaction with Organizational Outcomes (.937), Perceived Organizational Effectiveness (.908), and Ethical Leadership Scale (.949). Alphas above .90 are generally considered to be excellent (Gliem & Gliem, 2003).

Hypothesis 1 was supported (see Table 1). There is a significant positive relationship between ethical leadership and organizational trust (p. < .01). Those serving under ethical leaders reported a higher level of positive expectations.

They were more willing to be vulnerable in their interactions with other individuals, groups, or the organization as a whole. Further, the effect size of the relationship (R^2) was large, accounting for 63.4% percent of the variance.

Hypothesis 2 was supported (see Table 1). Ethical leadership is positively related to higher satisfaction with organizational outcomes ($p < .01$). Respondents who rated their leaders as ethical also expressed greater satisfaction with their individual standing within the organization (pay, progress, future) as well as the standing of the entire organization (capacity, quality of goods and services, strategy). The effect size for this relationship was also large, accounting for 44.9% of the variance.

Hypothesis 3 was supported (see Table 1). Ethical leadership is positively related to higher evaluations of organizational effectiveness. Respondents who rated their leaders as ethical were also more likely to give high marks to their organization's overall performance on such factors as growth, customer satisfaction, creativity, and productivity. The relationship between ethical leadership and organizational effectiveness generated a small effect size, accounting for 20.6% of the variance (see Table 1).

Hypothesis 4 was supported. The Ethical Leadership Scale (ELS) score of direct supervisors ($M = 3.81$) was significantly higher than that of CEOs ($M = 3.59$, $t = 2.905$; $df = 152$, $p < .01$), so respondents rated their immediate managers as more ethical than top management. Further, the correlations between ELS and the five dimensions of organizational trust were stronger for supervisors than for CEOs, with the exception of identification with the organization (see Table 2).

Table 1: Correlations among Variables
(ELS, Trust, Satisfaction, and Effectiveness)

Variable	ELS	Trust	Satisfaction	Effectiveness
ELS	1	.796**	.670**	.454**
Trust	.796**	1	.837**	.598**
Satisfaction	.670**	.837**	1	.673**
Effectiveness	.454**	.598**	.673**	1

**Significant at $p < .01$

Table 2: Correlations among ELS and Trust Dimensions

Variable	M	SD	Competence	Honesty	Concern	Reliability	ID
CEO	3.59	.897	.546**	.663**	.513**	.600**	.640**
Supv.	3.81	.913	.721**	.742**	.705**	.699**	.632**

**Significant at $p < .01$

Discussion

The results of this study further demonstrate that ethical leaders can also be highly effective. We hypothesized that ethical leadership would be correlated to the set of positive expectations members hold toward the organization as a whole. This hypothesis was confirmed. Evaluations of the ethical behavior of leaders were positively related to ratings of the competence, openness, concern, reliability, and identification dimensions of organizational trust. As anticipated, leaders who behave ethically when carrying out their duties (act as moral persons) and promote ethical conduct to followers (act as moral managers) also have the most trusting followers who are willing to be appropriately vulnerable in their interactions. We also hypothesized that ethical leadership would be directly linked to two direct measures of leader effectiveness: satisfaction with organizational outcomes and perceptions of organizational effectiveness. These predictions were also confirmed. Followers who perceive that their leaders are ethical are more likely to report that they are satisfied with their individual standing in the organization (pay, job, progress, opportunity to make a difference) as well as with the organization as a whole (how the organization compares to other organizations, management, the organization's future, employee capability). In addition, ethical leadership is linked with organizational effectiveness based on a variety of indicators ranging from productivity, adaptation, and performance to customer/client satisfaction and resource utilization.

Respondents in this study perceived that their immediate supervisors are significantly more ethical than their organizations' top leaders. We argue that this difference is the result of the impact of social distance on evaluations of moral actors. However, there may be alternative explanations. According to social exchange theory, the norm of reciprocity operates in leader-follower

relationships. Followers in high-quality (LMX) relationships exert more effort in response to the greater confidence placed in them by their supervisors (Wayne & Green, 1993). Walumbwa et al. (2011) report that the quality of the LMX relationship mediates the relationship between ethical leadership and follower performance. The better the relationship, the more likely it is that followers will respond to ethical leadership with higher performance. Followers in high-quality relationships may also reciprocate by giving their supervisors higher moral evaluations.

In addition to receiving higher ethics ratings, direct supervisors apparently had a greater influence on perceptions of organizational trust. The correlations between the competency, honesty, concern, and reliability dimensions of organizational trust were stronger for supervisors than for CEOS. However, Ellis & Shockley-Zalabak (2001) found that top managers, rather than direct supervisors, have the strongest influence on employee trust evaluations. Thus, the question of who exerts the most influence over the positive expectations of employees—CEOs or direct supervisors—merits further investigation.

This investigation was narrow in scope. We limited our focus to identifying links between ethical leadership, trust, satisfaction, and organizational effectiveness. Future investigators will need to determine the exact nature of those relationships. We expect that ethical leadership builds organizational trust, which then contributes to a variety of positive outcomes such as satisfaction and effectiveness. The fact that ethical leadership was more strongly related to trust than to the other variables in our project suggests that this is the case. There may also be variables that moderate the relationship between ethical leadership and trust. Follower self-esteem, which has been found to lessen the effects of ethical leadership on Organizational Citizenship Behavior and deviant behavior (Avey et al., 2011), might be one such variable. Confident followers may be less susceptible to the influence of ethical leadership on trust, satisfaction, and effectiveness.

Despite its limited scope, this project has several implications for the study and practice of leadership. First, the findings highlight the importance of ethical

leadership. Ethical leader behavior is connected to trust, one of the most researched and significant variables in organizational studies. Ethical leadership is also positively related to satisfaction with the organization and perceptions of the organization's effectiveness. These variables can be added to the growing list of positive organizational outcomes produced by ethical leaders.

Second, there are significant differences in how followers perceive the ethical behavior of direct supervisors and CEOS. Direct managers were seen as significantly more ethical than top managers and had a greater influence on trust, satisfaction, and effectiveness evaluations of organizational trust. In order to maximize the benefits of ethical leadership, organizations should focus more of their efforts on lower-level managers, introducing them to the key elements of ethical leadership, providing ethics training, supporting their attempts to reinforce moral behavior, and so on (Dirks & Ferrin, 2002).

Third, moral leadership appears to be an important path to leadership success. By making ethics a priority through modeling moral behavior, demonstrating concern, reflecting high character, setting a positive example, making ethics messages salient, and reinforcing ethical behavior, leaders improve the performance of their followers and their organizations.

Conclusion

When it comes to leaders, this investigation indicates that nice guys (and gals) finish first, not last. Ethical leadership is positively related to trust, follower satisfaction with organizational outcomes, and perceptions of organizational effectiveness. These findings can be employed by teachers and trainers to help convince cynical business leaders that they should make ethics a top priority. Modeling moral behavior, making ethics messages salient, instituting just human resource policies, and rewarding ethical behavior can boost the bottom line. Acting ethically is not only the right thing to do; it can also be the most profitable thing to do.

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