

Role of leadership and governance for building an ethical corporate culture: A Critical Review

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Abstract

In today's rapidly changing business environment, establishing an ethical corporate culture is paramount for sustainable success. Ethical corporate culture not only enhances a company's reputation but also fosters employee engagement, loyalty and trust, which are essential for long-term growth. Leadership begins with a clear articulation of values and ethical standards that align with the organization's mission. Leaders must model these values consistently, demonstrating integrity and transparency in all dealings. By embodying ethical principles, leaders create an environment where employees feel empowered to voice concerns, report unethical behaviour, and engage in open dialogue. Moreover governance structures play a critical role in reinforcing an ethical culture. In the current work, a comprehensive review of impact of leadership and governance on ethical corporate culture is carried out through semi -structured interviews and detailed case study analysis qualitatively. It is found out that organizations with strong ethical cultures are more likely to achieve success, and businesses that prioritize strong ethical cultures have higher employee morale, increased stakeholder trust, and mitigation of risk.

Keywords: *Leadership, Governance, Ethical Culture, Organization, Businesses.*

1. Introduction

In today's fast-changing business world, having an ethical corporate culture is more important than ever. Companies aren't judged only by their financial results anymore. Employees, customers, investors, and the community at large care deeply about integrity and social responsibility. An ethical culture lays the groundwork for trust, teamwork, and sustainable growth. It shapes how decisions are made, keeps employees motivated, and strengthens a company's reputation—factors that all contribute to long-term success.

Leadership and governance are essential for building and maintaining an ethical culture within an organization. Leaders don't just define the vision and tone; they also set an example by living out the values that guide behavior at every level. What they do, the decisions they make, and how they communicate can either strengthen or weaken the organization's ethical standards. Governance, on the other hand, provides the structure that supports leadership—through board setups, policies, and practices. It ensures accountability, fosters transparency, and makes sure that ethics remain a core part of the organization's goals and strategies.

While the importance of leadership and governance in fostering an ethical corporate culture is widely acknowledged, there's still much to learn about how these elements interact. This paper focuses into the critical connection between leadership styles, governance structures, and the development of ethical practices within organizations. By combining theoretical insights and real-world examples, it examines how these factors can either support or undermine an ethical culture. The goal is to pinpoint the key drivers of ethical behavior and offer practical guidance for leaders and organizations aiming to make ethics a core part of their identity and operations—not just an ideal. In doing so, this research adds to the ongoing conversation about corporate responsibility and the ethical demands of today's business world.

In today's corporate world, having a strong ethical culture has become essential for long-term success. Ethical practices aren't just about preventing issues like bribery, scandals, or fraud—they also help build trust with stakeholders and keep employees motivated. Leadership and governance are key to creating this foundation. While leaders are responsible for embedding ethical values into the organization, governance ensures those values are upheld through accountability and compliance (1). A robust ethical culture minimizes risks of unethical behavior and promotes sustainable growth (2). This paper explores the dynamic interplay of leadership and governance in creating and sustaining an ethical corporate culture. Leadership defines organizational values and sets behavioral benchmarks. Transformational leaders inspire ethical behavior by aligning personal values with organizational goals (3). Ethical leadership, fosters transparency, integrity, and fairness, directly impacting employee behavior and organizational outcomes(4). Governance structures, including codes of ethics, whistleblower policies, and compliance programs, serve as frameworks for ethical decision-making. Effective governance mechanisms mitigate risks of corruption and align corporate actions with societal expectations (5). Leadership and governance are interdependent in establishing an ethical corporate culture (6). While leaders provide vision and inspire adherence to ethical standards, governance ensures systems and processes reinforce these standards.

2. Literature Survey

Ethical leadership encompasses fairness, integrity, and transparency, guiding employees toward ethical behavior. The concept of ethical leadership, highlighting its effect on follower conduct and organizational outcomes is introduced (7). Rest's Four-Component Model (1986) provides a framework for ethical decision-making, underscoring moral sensitivity, judgment, motivation, and character. Leaders can use this model to evaluate and enhance ethical behavior. Ciulla, explored how leadership practices influence ethical climates. Transformational leaders, in particular, inspire ethical commitment by aligning organizational values with individual actions (8). Kaptein, developed the Corporate Ethical Virtues Model, emphasizing how leadership interventions enhance ethical culture through accountability, clarity, and supportability (9). Hofstede's cultural dimensions theory explains how societal culture affects leadership approaches to ethics. Ethical leadership must align with cultural values to achieve meaningful outcomes. Ethical leadership encompasses fairness, integrity, and transparency, guiding employees toward ethical behavior. Research by Brown and Treviño, introduced the concept of ethical leadership, highlighting its effect on follower conduct and organizational outcomes (10). Rest's Four-Component model provides a framework for ethical decision-making, underscoring moral sensitivity, judgment, motivation, and character. Leaders can use this model to evaluate and enhance ethical behavior. Ciulla, explored how leadership practices influence ethical climates. Transformational leaders, in particular, inspire ethical commitment by aligning organizational values with individual actions (11). Kaptein, developed the Corporate Ethical Virtues Model, emphasizing how leadership interventions enhance ethical culture through accountability, clarity, and supportability (12). Hofstede's cultural dimensions theory explains how societal culture affects leadership approaches to ethics. Ethical leadership must align with cultural values to achieve meaningful outcomes. Ethical leadership theory emphasizes leaders' role in modeling ethical behavior, influencing subordinates, and shaping organizational values Corporate governance structures, including boards of directors and regulatory frameworks, ensure accountability and foster ethical decision-making (13). Ethical leadership involves setting a moral tone, demonstrating integrity, and holding employees accountable for ethical practices (14). Leaders serve as role models, influencing employees' behavior through ethical decision-making and communication (15). Transformational leaders are more effective at embedding ethical values into corporate culture than transactional leaders (16). Transactional leadership focuses on compliance, while transformational leadership emphasizes long-term value creation. Leaders with high integrity foster trust, which is essential for ethical organizational climates (17). Trust between employees and leadership directly correlates with ethical behavior in the workplace. Corporate governance frameworks, including boards of directors, audit committees, and regulatory compliance systems, play a critical role in maintaining ethical standards (18). Governance bodies establish and enforce codes of ethics that provide a blueprint for expected behaviour (19). Effective governance includes mechanisms for employees to report unethical behavior without fear of retaliation (20). Ethical leadership and governance are interdependent. Governance provides the structural framework, while leadership drives cultural change. Leaders must work within governance frameworks to ensure ethical principles permeate all organizational levels (21).

Multinational corporations face challenges in aligning ethical practices across diverse cultural contexts (22). Ethical leadership involves guiding an organization with principles that prioritize ethical standards, transparency, and accountability. Leaders who exemplify ethical behavior set a precedent for employees, fostering a culture of trust and integrity (23). According to a 2023 article by North Central College, ethical leaders understand the importance of trust, transparency, and accountability in building a sustainable organization. By valuing honesty, integrity, respect, and community, they inspire employees to emulate these behaviors, creating a ripple effect throughout the organization. Similarly, a 2023 Forbes article emphasizes that when leaders consistently display ethical behavior, they establish a culture of trust and fairness, leading to increased employee satisfaction and long-term organizational success. Implementing clear codes of conduct and effective ethics training are essential components in cultivating an ethical corporate culture. A 2022 article from Thought Collective highlights the importance of establishing clear codes of conduct as foundational stones of an ethical corporate culture, guiding behavior and articulating organizational values. The article also emphasizes that implementing effective ethics training is crucial, as it equips employees with the knowledge and skills for ethical decision-making. Furthermore, the Institute of Business Ethics underscores the critical role of ethics training in shaping an ethical culture, stating that introducing ethical awareness from the beginning lays the foundation for a culture of integrity, accountability, and respect. Transparency in decision-making processes is another vital aspect of ethical leadership. A 2023 article from DDI emphasizes that promoting transparency within an organization encourages ethical behavior. Sharing information about ethical decisions made at all levels allows employees to understand the importance of acting ethically and reinforces the organization's commitment to integrity. Recent initiatives highlight the growing emphasis on ethical leadership. In July 2024, the Institute of Directors (IoD) in the UK developed a code of conduct aimed at restoring public trust in business leadership by promoting ethical behavior. This initiative was in response to corporate scandals and seeks to embed ethical values within the boardroom, emphasizing honesty, integrity, and personal responsibility. Additionally, the increasing involvement of ethicists in corporate decision-making reflects a trend towards integrating ethical considerations into business practices. For instance, David Rodin, an Oxford-trained philosopher specializing in the ethics of warfare, has been advising corporate leaders on ethical decision-making, illustrating the application of ethical principles from warfare to business contexts.

3. Case Studies

Case 1: Tata Group, India

Tata Group is often lauded for its ethical business practices. Its leadership, guided by the Tata Code of Conduct, emphasizes transparency, integrity, and accountability. Governance mechanisms such as whistleblower policies and ethical audits have played a significant role in maintaining its reputation (24).

Case 2: Enron Scandal, USA

Enron's collapse is a classic case of governance failure, where leadership prioritized personal gains over ethical standards. The lack of transparency and unethical practices led to one of the largest corporate scandals in history, highlighting the importance of ethical leadership and governance (25).

Case 3: Infosys, India

Infosys has established itself as a leader in corporate governance, implementing robust frameworks to ensure ethical behavior. Its focus on leadership integrity and stakeholder communication has strengthened employee trust and investor confidence. Infosys, a global leader in IT services, has consistently emphasized ethical leadership. Narayana Murthy, its founder, demonstrated how transparency, accountability, and fairness drive ethical culture. His leadership style, rooted in moral clarity, transformed Infosys into one of the most trusted brands globally. Infosys Annual Report (2021). Infosys Corporate Governance and Ethics. organizational growth. Leaders play a vital role in modeling, enforcing, and nurturing ethical behavior among employees. This paper investigates the dynamics between leadership styles, ethical decision-making, and organizational culture, focusing on the tools and frameworks leaders can use to instill ethical values (26).

Case 4: Johnson & Johnson

Johnson & Johnson's Credo emphasizes values such as responsibility and honesty. The leadership's commitment to these values during the Tylenol crisis (1982) showcased ethical decision-making, reinforcing stakeholders' trust (27).

Case 5: Volkswagen Emissions Scandal

The emissions scandal highlighted governance failures, including inadequate oversight and unethical leadership. The aftermath demonstrated the critical need for robust governance structures and ethical leadership to rebuild credibility (28).

4. Brief Case Studies

S.No.	Company	Goal	Expected Outcome
1	Unilever	Focused on sustainability through its "Sustainable Living Plan," embedding ethics in supply chains and production	Stronger brand loyalty and reduced environmental footprint
2	Patagonia	Operates with a commitment to environmental ethics, encouraging sustainable consumption and transparency	Increased customer trust and long-term profitability
3	Google	Introduced "Project Aristotle" to create psychological safety, emphasizing ethics in employee collaboration	Enhanced innovation and employee satisfaction
4	Starbucks	Focuses on diversity, inclusion, and ethical sourcing through its Coffee and Farmer Equity (C.A.F.E.) Practices	Higher employee morale and brand equity
5	IKEA	Confronted child labor issues by improving supplier audits and transparency	Reduced reputational risk and supply chain improvements
6	Johnson & Johnson	Their Credo prioritizes customer and employee well-being over profit	Resilience during crises and a positive public image
7	Microsoft	Promotes ethical AI development with principles ensuring fairness and accountability	Enhanced trust in AI technologies and regulatory alignment
8	Coca-Cola	Established a diversity council and initiatives after racial discrimination lawsuits	Improved workplace diversity and social responsibility image
9	Ben & Jerry's	Advocates for social justice, using its platform for activism	Strengthened brand differentiation and loyal customer base
10	Cisco	Maintains an ethics hotline and robust compliance programs to encourage accountability	Reduced legal risks and employee trust

11	The Body Shop	A pioneer in cruelty-free products and ethical sourcing	Stronger ethical brand positioning and customer loyalty
12	Walmart	Emphasized sustainability through renewable energy initiatives and ethical sourcing	Cost savings and reduced carbon footprint
13	Apple	Improved supply chain ethics by auditing factories and ensuring fair labor practices	Minimized labor rights controversies
14	Zappos	a value-based culture prioritizing customer service and employee happiness Established	Low employee turnover and customer satisfaction
15	Levi Strauss & Co	Advocates for sustainable production and workers' rights through initiatives like the "Worker Well-being Program."	Enhanced brand integrity and operational efficiency.
16	Salesforce	Embeds philanthropy in its business model through its 1-1-1 model.	Improved public reputation and employee engagement
17	Nike	Overhauled supply chain ethics after labor scandals, emphasizing transparency and fairness	Regained public trust and stabilized profits
18	Intel	Focuses on conflict-free minerals and ethical procurement practices	Industry leadership in ethical sourcing and reduced supply chain risks
19	Nestlé	Improved water usage ethics and community projects to address criticisms of resource exploitation.	Community goodwill and sustained market leadership.
20	Deloitte	Created an ethics framework to guide decision-making across global offices.	Consistency in global operations and increased client trust

5. Expected outcome

The findings of this research offer valuable insights for executives, board members, and policymakers aiming to strengthen ethical practices within organizations. These insights will contribute to fostering a more sustainable and equitable business environment. Key contributions of this study include:

- **Building Transparency and Stakeholder Relationships:** Ethical governance enhances transparency and supports the development of long-term stakeholder relationships.
- **Mitigating Fraud and Scandals:** Proactive leadership and governance play a critical role in deterring unethical behavior.

- Boosting Employee Motivation: Employees are more engaged and committed when operating within an ethical organizational framework.
- Promoting Sustainable Growth: Ethical practices serve as a foundation for long-term corporate stability and profitability.

Additionally, the research seeks to enhance understanding of the interplay between leadership styles and governance mechanisms in cultivating ethical cultures. It proposes a comprehensive framework for integrating ethical leadership and governance to minimize corporate misconduct. Practical recommendations will also be provided for fostering stakeholder trust and enhancing employee engagement through robust ethical practices.

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