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# Ethical leadership and employee satisfaction

by Mujo Vilašević, CCEP-I, MJur, MBA

**Mujo Vilašević** (mujo.vilasevic@gmail.com, linkedin.com/in/mujovilasevic) is a compliance professional working and living in Sarajevo, Bosnia and Herzegovina. He is a Head of Regulatory Compliance and Financial Crime Management at Raiffeisen Bank Bosnia, as well as a part-time teacher of business ethics at Burch International University Sarajevo.

Why is ethical leadership important, and where does it fit in terms of the organization, its employees, and their satisfaction? Can employee satisfaction be a measure of an organization's ethicality?

This article aims to provide answers to these and a few more related questions on ethics and compliance.

## Compliance and ethics program

To begin discussing ethical leadership, we should remind ourselves of key elements of any compliance and ethics program.

These essential elements are, by now, already common knowledge within the compliance and ethics industry. For each company to establish a proper compliance and ethics program, the following strategic elements should be implemented:

1. Policies and procedures

2. Chief compliance officer/compliance committee

3. Education and training

4. Reporting

5. Monitoring and auditing

6. Enforcement

7. Responding to issues[1]

These elements refer to both large and small organizations, with the obvious rule that smaller organizations can apply these compliance elements with fewer resources and formality. Basically, one organization should first and foremost have proper policies and procedures to define what is and what is not allowed behavior within the organization. To this extent, the main focus is to have a proper code of ethics or code of conduct as a source document from which all other procedures and policies will derive. Then, the organization should name a chief compliance officer (CCO)—or even a compliance committee if it sees fit, depending on the organization's needs. The CCO should oversee all matters regarding implementing and controlling an effective compliance and ethics program. Such a position must have resources, independence, a seat at the table for all major decisions, and a clear line of reporting to the highest authority within the organization. Besides this, the CCO should monitor and audit the organization's activities to assess potential compliance and ethics risks and propose proper mitigation

measures within the processes. To do so, the CCO must have tools of enforcement, which include both the award and punishment system. Finally, there should be a proper system for responding to issues, with secured protection of confidentiality and anonymity, so everyone within the organization feels comfortable raising suspicion on noncompliance or nonethical behavior (most common is the whistleblowing system). With all the previously mentioned, we get the full-circle picture of an effective ethics and compliance program. But what is ethical about all of this? Why would we include ethics in this topic in the first place?

There are many answers to these questions. However, if we want to start from the beginning, we need to talk about ethical leadership.

## Ethical leadership

More than once, we try to provide an answer to the questions: "What is the company? What is the purpose of one organization?" More often than not, we will find ourselves with answers that are all about the people. When considering compliance, this is where we must also calculate ethics and leadership. Why? Because humans have behavior. This behavior can't always be controlled by policies, procedures, or enforcement of any kind. This is why there needs to be a behavioral approach, which demands specific leadership within the organization—that is, ethical leadership for ethical companies.

Many authors today would agree that ethical leadership can be described in three main attributes: honesty, integrity, and service. As described by Michael Brown and Linda Treviño in "Ethical leadership: A review and future directions," the main question asked by ethical leaders themselves is, "How can I serve my company, employees, and society in general?"[2]

There are several significant pieces of practical advice from published studies so far on what it means to be an ethical leader and how it works in practice. Already famously said so many times, it means for leaders to "walk the talk" to have the courage to make hard choices—even if they are not profitable from a short-term perspective. Ethical leaders must set an example and be a moral person with the attitude that they want to be standard within the company they lead. Ethical leaders must invest in the education and training of all their employees. Ethics is a lifetime learning concept, including continuous education for leaders themselves. Finally, ethical leaders must be aware that every one of their decisions can have an ethical or unethical impact, so ethical decision-making must be enhanced on all levels.

In short, ethical leadership would be doing good even when no one is looking, but even more so when everybody is looking, and the pressure is the greatest, especially from those in power. Doing "good" in terms of leadership is doing the "right thing," which will benefit the most—the employees, company, and community—regardless of the short-term costs. Ethical leaders cannot allow themselves to have a short-term mindset. Ethical leaders must be aware that being ethical will be costly. Part of ethical leadership is to promote such a setup within the organization, and part of being ethical (when everyone is looking) is convincing the most senior leadership and owners that ethics and ethical leadership, however costly it may seem, will be a benefit in time, and that it is a proper and wise long-term investment.

Who profits? Everybody. As authors Min-Seong Kim and Brijesh Thapa illustrate, ethical leadership helps companies have better financial performance and achieve strategic goals, positively impacts employee satisfaction, and gives benefits to the community.[3]

Going even further, we can see that the most impactful ethical leadership is toward employee satisfaction, which then, by consequence and mere logic, generates all other positive outcomes of this type of leadership.

## Employee satisfaction

Even though this is a widespread topic, we must try to understand how we measure employee satisfaction. Everybody wants happy and engaged employees. However, in 2024, there is more and more employee dissatisfaction: post-COVID-19, the great resignation phenomena, the inflation crisis, a shift in personal values, etc. How can we be part of the solution? Let's dive into the measure of employee satisfaction. Relevant studies, such as Abayomi Olarewaju Adeoye's "Ethical Leadership, Employees Commitment and Organizational Effectiveness: A Study of Non-Faculty Members," would agree that employee satisfaction is measured by the following eight factors:[4]

1. Benefits and compensations

2. Job security

3. Work–life balance

4. Meaningfulness of work

5. Positive work relations

6. Recognition and feedback

7. Organizational culture and values

8. Growth opportunity

This list is not ordered by level of importance. It is not difficult to see how ethical leadership relates to employee satisfaction. This correlation is even self-explanatory, considering how much employees care today about positive work relations, culture, and growth—all of which are impossible with nonethical leaders. A long-term perspective (one of the key attributes of ethical leadership) fosters creativity, productivity, and more engaged employees. Automatically, the level of employee satisfaction increases. Furthermore, ethical leaders are aware of the significance of the company's values and their impact on the overall culture. Employees can see and feel if this is part of the overall strategy if leaders are brave enough, and how things are set up.

## Correlation

Brown and Treviño found that ethical leadership positively affected employee job satisfaction.[5] The study also found that employees who worked under ethical leaders reported higher levels of job satisfaction than those who worked under leaders who did not prioritize ethics. Another study by Ronald F. Piccolo and colleagues found that ethical leadership was positively related to employee job satisfaction and engagement.[6] How does this correlation work long term? Well, ethical leaders who engage in trust and respect as fundamental values of the organization will foster more engaged employees. More engaged employees will be more determined to get the work done, which will reduce turnover rates and reduce rework. Additionally, this provides cost reduction and profit increase, which, from a long-term perspective, also has an indirect positive impact on reducing irregularities and noncompliance. Coming again full circle, fewer irregularities and more compliance contribute to the company's overall income, profit, and well-being.

## Conclusion

Ethical leadership is vital in promoting employee satisfaction. Ethical leaders who prioritize ethical practices and behaviors tend to have employees who report higher levels of job satisfaction, organizational commitment, job

performance, and motivation. Organizations that prioritize ethical leadership can benefit from improved employee outcomes and higher levels of organizational performance. A good example of a "compliance and ethics" organization is directly proportional to an organization with satisfied employees.

The ultimate goal of ethics is happiness. The ultimate goal of an organization should be employee happiness.

## Takeaways

- Ethical leadership is a keystone of effective compliance and ethics programs.

- Ethical leadership has a direct positive impact on employee satisfaction.

**1** Adán Nieto Martín and Marta Muñoz de Morales, "Compliance Programs and Criminal Law Responses: A Comparative Analysis," *Preventing Corporate Corruption: The Anti-Bribery Compliance Model* (Springer: 2014): 333–362, https://link.springer.com/chapter/10.1007/978-3-319-04480-4_17.
**2** Michael E. Brown and Linda K. Treviño, "Ethical leadership: A review and future directions," *The Leadership Quarterly* 17, no. 6 (December 2006): 595–616, https://doi.org/10.1016/j.leaqua.2006.10.004.
**3** Min-Seong Kim and Brijesh Thapa, "Relationship of Ethical Leadership, Corporate Social Responsibility and Organizational Performance," *Sustainability* 10, no. 2 (February 2018): 447, https://doi.org/10.3390/su10020447.
**4** Abayomi Olarewaju Adeoye, "Ethical Leadership, Employees Commitment and Organizational Effectiveness: A Study of Non-Faculty Members," *Athens Journal of Business & Economics* 7, no. 2 (April 2021): 161–172, http://zbw.eu/econis-archiv/bitstream/11159/6575/1/178258885X_0.pdf.
**5** Brown and Treviño, "Ethical leadership: A review and future directions."
**6** Ronald F. Piccolo et al., "The relationship between ethical leadership and core job characteristics," *Journal of Organizational Behavior* 31, no. 2–3 (February 2010): 259–278, https://onlinelibrary.wiley.com/doi/10.1002/job.627.

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