Leaders, Values, and Organizational Climate: Examining Leadership Strategies for Establishing an Organizational Climate Regarding Ethics

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ABSTRACT. This paper examines the critical role that organizational leaders play in establishing a values based climate. We discuss seven mechanisms by which leaders convey the importance of ethical values to members, and establish the expectations regarding ethical conduct that become engrained in the organization's climate. We also suggest that leaders at different organizational levels rely on different mechanisms to transmit values and expectations. These mechanisms then influence members' practices and expectations, further increase the salience of ethical values and result in the shared perceptions that form the organization's climate. The paper is organized in three parts. Part one begins with a brief discussion of climates regarding ethics and the critical role of values. Part two provides discussion on the mechanisms by which leaders

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and members transmit values and create climates related to ethics. Part three provides a discussion of these concepts with implications for theory, research, and practice.

KEY WORDS: ethical climate, values, leadership

Leadership plays a vital role in organizations. Leaders provide direction and facilitate the processes that enable organizations to achieve their goals and objectives (Zaccaro and Klimoski, 2001). While productivity and financial objectives are often given the greatest emphasis, leaders also have responsibility for instituting standards of ethical conduct and moral values that guide the behavior of followers (Mautz and Sharaf, 1961). Recently, the corporate world has been shaken by several scandals in which CEOs and other top leaders demonstrated a severe lack of ethical conduct in business operations that eventually led to the demise of some of the world's largest and seemingly most successful companies. These scandals have also demonstrated the enormous impact of leaders on their organizations, through their direct actions as well as creating a climate that sanctioned ethically questionable practices. Leaders not only directly influence the behavior of members, but their actions also influence the perceptions of members which lead to norms and expectations of appropriate conduct that become ingrained in the organization's climate. Leaders' actions both directly and indirectly establish the ethical tone of an organization (Lee, 1986) by the actions that are encouraged, rewarded, and demonstrated.

Organizational climate refers to perceptions of organizational practices and procedures that are shared among members (Schneider, 1975), and which provide an indication of the institutionalized normative systems that guides behavior (Schneider, 1983). An organization's climate regarding ethics forms the ethical character of the organization, by providing the environmental cues that guides ethical behavior (Victor and Cullen, 1987). Dickson et al. (2001) suggest that an organization's climate regarding ethics is a unique type of climate as it is based on values, and the organization's leaders have the primary role in communicating and demonstrating the true importance of ethical values to the organization's members. Decisions of founders and other top leaders in the early stages of the organization's lifecycle have a profound impact on the development of an organization, and lead to the creation of strategies, structures, climates, and culture (Schein, 1992; Schneider, 1987). Additionally, leaders throughout all stages of the organization's life cycle and all organizational levels continuously shape the organization's climate by providing meaning to policies and practices through the manner in which they enact the organization's goals and strategies (Wimbush and Shepard, 1994). The actions of direct leaders provide an immediate indicator of appropriate behavior.

This paper examines the critical role of organizational leaders in establishing a climate regarding ethics. We discuss seven mechanisms by which leaders convey the importance of ethical values to members, and establish the expectations regarding ethical conduct that become engrained in the organization's climate. We also suggest that leaders at different organizational levels rely on different mechanisms to transmit values and expectations. These mechanisms then influence members' practices and expectations, further increase the salience of ethical values and result in the shared perceptions that form the organization's climate. We begin with a brief discussion of climates regarding ethics, and the critical role of values. Then we discuss the mechanisms by which leaders and members transmit values and create climates related to ethics. We then conclude with a discussion of the implications for theory, research, and practice.

Climate regarding ethics and the role of values

Climate regarding ethics

Schneider's (1975) definition of organizational climate as ''psychologically meaningful molar [environmental] descriptions that people can agree characterize a system's practices and procedures'' prevails as one of the most widely accepted definitions (p. 474). In essence, organizational climate pertains to the ''shared perceptions of the way things are around here'' (Reichers and Schneider, 1990, p. 22), which become social norms and expectations that guide behavior in a particular setting (Schneider, 1983). Organizations have multiple types of climates (Schneider, 1975), addressing different facets of the

environment such as safety (Zohar, 1980) and customer service (Schneider and Bowen, 1995).

Victor and Cullen's (1987, 1988) work has been influential in highlighting the notion that organizations have a type of climate pertaining specifically to ethical issues. They define this type of climate as "the shared perceptions of what is ethically correct behavior and how ethical issues should be handled" (Victor and Cullen, 1987, p. 52). Dickson et al. (2001) refer to this type of climate as *climate regarding ethics*, noting that the more traditional term *ethical climate* is problematic as some may connote that an organization's climate is "ethical" within the context of the values of the larger society. While societal values are likely to influence organizational practices, both organizational climate and organizational ethics are, by nature, defined within the context of a particular setting (Nicotera and Cushman, 1992). As such, this aspect of climate provides norms and expectations of behavior that is viewed as ethically acceptable, and helps members determine what issues have an ethical content as well as the criteria that should be used to determine appropriate actions within a particular organization (Cullen et al., 1989).

Multiple factors, both internal and external to the organization, are likely to influence members' perceptions of an organization's norms and expectations of ethical conduct; that is its climate regarding ethics. Schneider and Reichers (1983) suggest that organizational climates, in general, emerge via three processes: (a) exposure to objective structural characteristics, (b) attraction–selection–attrition (ASA) processes which result in similar types of people being attracted to, selected by, and retained by organizations (Schneider, 1987), and (c) organizational socialization processes which teach members what is appropriate behavior in a particular setting. Victor and Cullen (1988) add that an organization's sociocultural environment and specific history also influence the shape of climates for ethics. While all of these factors provide environmental cues regarding ethics, it is the organization's leaders that establish and enact the goals, policies, and practices that provide these environmental cues, and thus play the primary role in the creation of climates related to ethics (Dickson et al., 2001).

This process primarily occurs over two periods of time. First, during the early period of an organization's development, the personal values of the founder and other early leaders become embedded in the social fabric of the organization, which provides the environmental context that either sanctions or discourages behavior. Schein (1992) identifies a series of primary and secondary mechanisms through which the values of a leader become embedded in the culture of an organization. Through the primary embedding mechanisms, leaders communicate the core organizational assumptions by establishing criteria for rewards, resources allocation and gaining organizational status which result in an organization's climate. Through the secondary embedding mechanisms, the organization's values are further articulated and reinforced through organizational design, structure, rituals and mission statements. Then, shared perceptions, assumptions, beliefs, and values emerge from the members of the organization as they find ways to successful work together to build the organization. The perceived norms of ethical conduct that become shared are the foundation of the organization's initial climate regarding ethics, and reflect the personal values and ethics held by the founder and the organization's membership.

Second, as the organization becomes larger and more mature, leaders at multiple levels enforce ethical norms that reinforce the organization's ethical value system. As the organization faces new ethical situations, the shared perceptions of expected behavior will be shaped by those practices that are encouraged and rewarded by the organization's leaders, giving rise to new norms of behavior. Thus it is the leaders of the organization who play the dominant role in creating and maintaining climates regarding ethics. And it is the leader's personal values and ethics that are embedded in and shape the emerging climate regarding ethics, as well as the climate that is maintained.

Values

Values have an important influence on organizational behavior (cf. Meglino and Ravlin, 1998), including organizational ethics (Keeney, 1994). Values are relatively stable beliefs that certain modes of behavior (instrumental values) or end-states (terminal values) are desirable (Meglino and Ravlin, 1998; Rokeach, 1973). They influence behavioral choices as people are motivated to act in a manner that is consistent with those things that are valued

(Locke, 1991; McClelland, 1985; Rokeach, 1973). Schwartz (1994) provides four useful perspectives on the origin and usefulness of values, and how they are aligned with behavior. First, values are cognitive structures which support the interests of some element of the social environment. Second, values motivate behavior by providing direction and emotional intensity to action. Third, values are standards to judge and justify action. And finally, values are acquired both through socialization activities and an individual's unique experiences.

Values operate at multiple levels – societal, organizational, and personal – to influence organizational behavior. We suggest that the values of the organization, its leaders, and its members play important roles in shaping the organization's climate regarding ethics.

Organizational values

A discussion of values at the organizational level suggests a shift in focus from organizational climate to organizational culture. While both constructs are similar, climate may be viewed as how things are, while culture refers to why things are as they are (Kopelman et al., 1990). Organizational values have been a primary focus of much research on organizational culture as they prompt behaviors that facilitate efficient interactions between individuals leading to organizational survival and prosperity (Meglino and Ravlin, 1998; Schein, 1992), and are perhaps the deepest layer of culture that can be studied quantitatively (Rousseau, 1990).

An organization's ethical values are routed in that organization's value system, and an ''action can be judged as ethical if it upholds the value system of that organization'' (Nicotera and Cushman, 1992, p. 440). Sinclair (1993) suggests that organizational culture is the ultimate source of ethical and unethical behavior, while Cullen et al. (1989) suggest that climates related to ethics are an extension of an organization's culture. Actions that are considered ''just'' and ''right'' are part of the organization's basic ethical assumptions (Gottlieb and Sanzgiri, 1996). Cultural values regarding ethical issues establish and give priority to modes of behavior that are specific to that organization (Stoner, 1989), and become enacted by the climate regarding ethics.

Leader values

Addressing problems that have an ethical content is an inherent responsibility of organizational leaders. Ethical leadership involves the integration of personal values and the needs of the social system in the development of an ethical framework (Gottlieb and Sanzgiri, 1996). Thus leader values likely have a direct effect on shaping the direction of the organization's climate regarding ethics through this integration.

It is important for leaders to have awareness of personal values, ethics and morals as they influence the choices they make and the behaviors in which they engage. Leaders whose personal ethics and values are not supportive of the organization's values will likely convey less importance of these values to the organization's members.

Non-leader values

While values are enduring personal characteristics, they are acquired through a process of social analysis (Rokeach, 1973; Williams, 1968), and may change somewhat over time due to the influences of social factors. Values are stable enough to reflect continuity of beliefs and behaviors within a specific culture or society, ''yet unstable enough to permit rearrangements of values priorities as a result of changes in culture, society, and personal experiences'' (Rokeach, 1973, p. 11). People develop value hierarchies through a cognitive social comparison process (Rokeach and Ball-Rokeach, 1989). Those values that are emphasized reflect interpretations of socially accepted modes of conduct or desired needs (Kluckhohn, 1951; Rokeach, 1973; Williams, 1968). Once acquired, values determine what is and what is not personally rewarding (Locke, 1991), which influences the intention to act (McClelland, 1985). Individuals have been shown to experience some rearrangement of individual value systems by understanding and accepting the values of a particular organization (Cable and Parson, 2001; Chatman, 1991). The values that people emphasize influence the actions they engage. It is based upon overview of climate and values that we posit leaders impact the climate regarding ethics within their organizations.

Leader transmitting mechanisms

While numerous factors influence climate emergence and change, the actions of the organization's leaders are likely to have the greatest influence over ethical behavior and climate regarding ethics (Andrews, 1989; Waters and Bird, 1987). In this section, we discuss seven mechanisms by which leaders convey the importance of the organization's ethical values to members, thereby influencing expectations and shared perceptions.

Use values-based leadership

Charismatic and transformational approaches to leadership move beyond transactional exchanges between leaders and followers to achieve desired performance objectives (Bass, 1985), and attempt to use intrinsic motivation to inspire others to go beyond personal interests and work toward a higher, collective purpose. Charismatic leaders are presumed to encourage excellence and achievement in their followers by influencing followers' emotional connections or promoting positive affect toward the leader (e.g., affection, trust, willing obedience). Charismatic leaders develop this emotional attachment by laying out a vision that arouses deeply held values in followers (House, 1977). Given the importance of values in the establishment and enactment of climates regarding ethics, we suggest that aspects of values-based leadership are a particularly important transmitting mechanism.

Bass (1985) identified four dimensions of transformational leaderships, which are commonly referred to as the four I's: idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration. These dimensions of transformational leadership may impact climate and ethics in different ways. Idealized influence, also referred to as charisma, involves the followers' reactions to the leader, and his or her actions. Followers identify with and emulate those leaders who are perceived as trustworthy and capable of achieving their vision (Bass and Avolio, 1993). Inspirational motivation involves the use of symbols and emotional appeals to engender awareness and understanding of the leader's vision and collective objective (Bass and Avolio, 1993). This factor sometimes overlaps with idealized influence. Intellectual stimulation comprises two primary characteristics. First, intellectual stimulation involves encouraging followers to question past perspectives and ways of doings things, and second providing support to followers who question their own, as well as the leader's and organization's values, beliefs and goals (Bass and Avolio, 1993). Individualized consideration addresses the manner in which leaders treat followers. Leaders who use individualized consideration treat each follower differently, and in a manner that is equitable and satisfying to the follower (Bass and Avolio, 1993).

Through the charismatic aspects of transformational leadership – dimensions of idealized influence and inspirational motivation – leaders inspire followers to accept the leader's vision and collective values of the group. Shamir et al. (1992) contend that leaders who use charismatic approaches have a transformational effect on followers by engaging followers' self-concepts, and inspiring them to link aspects of their self-concepts to identification with the leader's visions and membership in the group.

House and Shamir (1993) further elaborate on the impact of charismatic leadership on followers' self-concepts, suggesting that charismatic leadership influence the hierarchy of values and identities within a person's self-concept. As a results: (a) followers' identification with the collective is a more salient aspect of the self-concept, (b) followers internalize the values and goals of the leaders, (c) followers become personally committed to these values and goals, and (d) followers become willing to transcend their own interests to work toward the collective good. The group- or collective level self-concept then becomes the most salient of self-concepts and individuals are motivated to act consistently with this self-concept to enhance their self-esteem (Lord et al., 1999).

Therefore, we suggest that charismatic leadership approaches will help to increase the acceptance of the organization's ethical values leading to greater congruence of values between the followers' and the organization. As people tend to act in a manner consistent with their values, these values likely influence views on appropriate conduct, thereby further shaping the climate related to ethics. Additionally, as members become more congruent in terms of their values, the climate will likely grow stronger.

In additional to linking values to the followers' self-concept, leaders also use intellectual stimulation to enhance follower's capacity to reexamine assumptions and current modes of thinking, as well as to encourage new ideas. This dimension also involves establishing a ''holistic picture'' from which followers view their organization and its objectives from multiple perspectives (Bass and Avolio, 1993, p. 56). These types of leadership behaviors should facilitate members developing a clearer understanding of situations that may have ethical implications, as well as to determine ethically appropriate ways of addressing the situation, and thus help to shape the quality of the organization's climate related to ethics.

The individualized consideration dimension involves recognizing each follower's strengths and needs, and providing assignments and encouragement to aid individual development. These types of behaviors should also help followers to develop a clear understanding of the expectations of ethically appropriate behavior in the organization, thereby helping to establish the overall quality of the organization's climate related to ethics. Thus, it is expected that intellectual stimulation and individualized consideration should be directly related to the quality of the organization's climate related to ethics.

Yet some have questioned the ethics of attempting to change the values systems of others. There has been some recent literature that argues that it is inappropriate for leaders to attempt to instill their values in subordinates. For example, Stevens et al. (1995) argue that it is not appropriate for organizational leaders to view ''employees' values, like employees' labor, as rightfully the property of the organization'' (p. 47). They further argue that theories of transformational and charismatic leadership are based on the premise of altering fundamental employee value structures.

We strongly disagree with this line of reasoning, on several bases. First, the arguments of Stevens et al. (1995) and other similar authors appear to be a misstatement of the theories of values-based leadership, in that they imply a sort of Skinnerian system of ''clever ones'' who oversee and manipulate subordinates' fundamental values structures with impunity. Several authors (e.g., House, 1991; House and Howell, 1992; Klein and House, 1998) have discussed the distinction between personalized and socialized charismatic leaders, and while we would acknowledge that not every person who attempts to influence another does so with the best of motives (i.e., is a socialized charismatic leader), we also reject the implication that the entire arena of charismatic leadership consists of personalized charismatic leaders.

Second, there is no evidence of which we are aware that suggests that organizational leaders influence fundamental value structures to nearly the degree implied by arguments such as those of Stevens et al. (1995). Rather, as Shamir et al. (1992, p. 588) note, ''In most cases, charismatic leaders do not instill totally new values and identities in the followers' self-concepts; rather, they raise their salience and connect them with goals and required behaviors … '' (see Klein and House, 1998, for further discussion of these points). And finally, higher levels of moral reasoning has been found to be related to greater use of transformational leadership behaviors (Tuner et al., 2002).

Set the example

The behavior of leaders is a powerful communication mechanism that conveys the expectations, values and assumptions of the culture and climate to rest of the organization. Leaders are role models of appropriate behavior and their actions have a strong influence over the ethical conduct of followers, as well as its climate regarding ethics (Andrews, 1989; Waters and Bird, 1987). Surveys have reported that leader role models are the primary influence on individual ethical behavior, particularly the behavior of direct managers and supervisors (Falkenberg and Herremans, 1995; Posner and Schmidt, 1984).

Social learning theory provides some clues as to why leader behavior is influential in facilitating individual ethical behavior. One way that people learn is by observing the behavior of others and the consequences of it (Bandura, 1986). Observed behaviors that have desired consequences become part of an individual's repertoire, and later become translated into actual behavior in the appropriate situation. This is referred to as modeling (Bandura, 1986). Modeling is more than a mimicking of behavior; rules associated with behavior are also conveyed to others (Wood and Bandura, 1989).

Thus, a leader's actions are viewed as the standard of acceptable conduct and are modeled by individuals as appropriate and necessary for career advancement.

Role modeling likely influences a climate regarding ethics indirectly via two routes: increasing trust in leaders, and facilitating value congruence. Leaders who demonstrate actions that are consistent with the organization's values and mission are likely to be viewed as more trustworthy. Further, Bass (1985) argues that transformational leaders exert idealized influence over their followers by acting as role models. Additionally, House and Shamir (1993) suggest that role modeling is a mechanism through which leaders who have charismatic effects convey the vivid examples of the values associated with the vision and mission of the organization. The leader behaviors exhibited when role modeling not only activate desired values in the follower, but these behaviors also develop, identify, and activate value-appropriate normative prescriptions for follower behavior. As such, role modeling conveys the values that are important to the organization's social environment, which should help to increase congruence either by inducing change in individual values or through the attraction and retention of members who have similar values, and "fit" the organization.

Establish clear expectations of ethical conduct

Issues of an ethical nature are often encumbered by ambiguity. Leader actions that clarify ethical issues and boundaries of behaviors will help to reduce ambiguity. Clearly defining what situations have an ethical nature and expected ways of handling these situations will help to shape the direction of the organization's climate regarding ethics.

Policies, practices, and training. When organizations expand and become larger, word-of-mouth controls and policies need to be replaced by more formal control systems. As an organization enters more mature lifecycle stages, they tend to formalize rules and institutionalizes procedures in an attempt to achieve stability and efficiency (Quinn and Cameron, 1983). Glenn Coleman of Texas Instruments notes that "Practicing good ethics was a lot easier when we were a small company and corporate leaders saw all the employees everyday. But as our company began to expand globally, the industry became more complex and the business environment changed, our corporate leaders no longer could depend on word-of-mouth to carry our ethics message" (Baker, 1997). Documented codes of ethics and formal policies governing ethical decision making and conduct are elements of formal control systems (Falkenberg and Herremans, 1995) that clearly communicate the accepted and expected standards of ethical conduct. Moreover, they reduce ambiguity leading to greater consistency of behavior throughout the organization. Organizations throughout the United States are beginning to recognize the importance of being explicit about the behaviors that are seen as ethically acceptable, and those that are seen as unacceptable. For example, the Conference Board reports that 95% of all Fortune 500 firms have established codes of conduct. In a recent study, the Washington, DC-based Ethics Resource Center found an increase of 34% (from 11% to 45%) in the number of companies with ethics offices between 1987 and 1997.

However, organizations are also realizing that formal policies are not enough to gain lasting changes in ethical behavior. The Ethics Resource Center Survey also reports an increase of 22% (to a total of 50%) in the number of companies that offer employees specific ethics training. According to Michael Daigneault, ERC president, "An increasing number of companies have realized that it's not enough to simply articulate company principles. They must integrate ongoing training and discussion on ethics into employee orientation programs, general training courses, executive development programs and even offer full-fledged, focused courses on business ethics" (Baker, 1997, online). Training provides a systematic learning atmosphere designed to change the work environment (Goldstein, 1993); and as such, ethical training can be designed to introduce ethical concepts and formal policies, as well as provide members with the opportunity to apply the newly acquired concepts to using case studies or role play exercises.

Formal socialization activities. Through socialization processes, individuals acquire the knowledge, behaviors, and norms necessary to become a functioning organizational member (Bauer et al., 1998; Van Maanen and Schein, 1979). As the internalization of ethical norms and expectations will most

likely occur when environmental conditions are stable (Dickson et al., 2001) and prior to being placed in ethically ambiguous situations, socialization activities should be provided that introduce and reinforce expectations for ethical behavior. We point to two aspects of the socialization process that will help to strengthen the climate regarding ethics. First, a primary function of socialization is to instill an understanding of organizational culture, ensuring continuity of values and norms (Bauer et al., 1998) and reducing ambiguity for new members (Lester, 1986). Through socialization, new members are introduced to the ethical values held by members, and encouraged by the organization's systems. And second, socialization tactics may result in changes in personal values of newcomers. For instance, more intense socialization (Chatman, 1991) and sequential, fixed socialization tactics (Cable and Parsons, 2001) have been found to produce some change in personal value hierarchies to be more congruent with perceived organizational value hierarchies. Through socialization, new members may shuffle their hierarchies of personal values, placing greater emphasis on personal values that previously occupied a lower position in the hierarchy.

Provide feedback, coaching, and support regarding ethical behavior

Coaching and mentoring interventions that include feedback focused on specific aspects of ethical conduct will further reduce ambiguity of ethical events, help increase ethical awareness among employees, and direct attention to appropriate ways to address ethical issues. Moreover, these interventions will communicate that the organization supports these behaviors and expects members to view them as the accepted way of doing business.

The development and motivation of subordinates is an important aspect of the leadership process. Leaders can provide coaching and mentoring support to members regarding their ethical conduct, then develop and motivate ethical conduct among members. As a coach, leaders provide front-end guidance and instruction on ethical values, then follow-up by providing feedback on the handling of assignments and specific aspect of performance. Coaching should also address how employees are handling ethical issues. Bass (1990) points out that a key feature of coaching is individualized instruction, which allows coaches to attend to specific areas of difficulty and provide the kinds of feedback that are most beneficial to subordinates. In their meta-analysis, Kluger and DeNisi (1996) found that feedback interventions were most effective when the focus of feedback was on task-specific events, and less effective when the focused moved away from the task details and more toward self-related events.

Recognize and reward behaviors that support organizational values

Building ethical conduct and values into processes for rewards, recognition, advancement, and excommunication will send a clear message to members regarding the importance of ethical conduct. Evaluation systems that focus solely on financial measure and encourage individuals to engage in behavior that is individually beneficial, may be detrimental to others (Chen et al., 1997). Criteria regarding organizational values can be incorporated into performance evaluation and management programs, sending a clear message of the importance of ethical values.

Rewards, both formal and informal, provide powerful reinforcement for ethical behavior, which should lead to stronger behavioral norms. Ethical criteria that engender a concern for others and the organization's ethical standards can be built into criteria for the distribution of financial rewards, such as base pay raises, bonuses and incentives. However, Bartol and Locke (2000) suggest caution in using reward programs to foster desired behaviors to ensure that people do not sacrifice the overall desired outcomes for the sake of the rewarded behavior. In this regard, organizations should carefully consider the criteria used for distribution of rewards to ensure that the objectives of the organization are meet, including the reinforcement of desired ethical conduct.

Leader informal rewards also serve to reinforce important behaviors. By informal rewards, we mean recognition from supervisors and/or more remote levels of leadership, opportunities to work more autonomously on assignments, opportunities to interact with members at other organizational levels, or work and/or lead special assignments. Essentially,

engaging subordinates in in-group exchange activities, with leaders providing increased trust, respect, and advancement opportunities in exchange for their subordinates enacting ethical standards. We suggest that leaders will communicate important values, standards and assumptions regarding ethical conduct by establishing reward, recognition, promotion and status systems that are consistent with its core ethical values.

Be aware of individual differences among subordinates

Leadership and organizational effectiveness, Buckingham and Coffman (1999) note that great managers recognize that people have different talents, do not have unlimited potential and tend not to change much over time. Leader awareness of subordinate values is essential for creating a strong climate regarding ethics, as well as encouraging members' adherence to ethical values. Different personal characteristics such as personality, values, ethics, and integrity all impact an individual's proclivity to engage in ethical or unethical actions, internalize characteristics of the organization's climate and fit with an organization. While the climate will influence the choices that individuals make involving ethical issues, core personal values also influence behavior independently of the environmental forces. By knowing the characteristics that are likely to impede adoption and internalization of the climate regarding ethics, alternative strategies and policies can be developed.

Personality. Several personality traits may affect the way individual members view the organization's environment, and their internalization of climates regarding ethics. Emotional stability and positive/negative trait affectivity are traits likely to effect the internalization of organizational climate. Individuals who score low on emotional stability (or high in neuroticism) tend to experience a more negative view of life events (Judge and Bono, 2001). Additionally, individuals high in the trait negative affectivity are prone toward more negative emotional states, which may deter then from engaging in pro-social behaviors and exerting efforts toward organizational endeavors (George, 1992). Moreover, George (1990) demonstrated that as the negative affectivity levels of a group increased, members of the group were less likely to engage in pro-social activities. Negatively focused personality characteristics are likely to impact the emerging climate by establishing a negative tone, and lessening the likelihood that others will internalize the climate related to ethics and engaging in other focused behaviors.

Conscientiousness is another personality trait that likely influences members' views of the organization. Conscientiousness has been shown to influence several workplace behaviors, such as overall job performance and training proficiency (e.g., Barrick and Mount, 1991), and organizational citizenship behavior (OCB) (Organ, 1994). Conscientiousness appears to be characterized by two main sub facets, dutifulness and achievement striving (Mount and Barrick, 1995). Individuals who score high on the facet of dutifulness may be more likely to engage in ethical behavior and aid in the establishment of ethical norms. Dutifulness is defined in terms of conscience, reliability, dependability, and adherence to ethical principles and moral obligations (Costa and McCrae, 1992). Additionally, Ones et al. (1993) suggest that conscientiousness appears to be the underlying factor in personality-based integrity tests.

In summary, emotional stability, positive and negative trait affectivity, and conscientiousness appear to be important personality characteristics involved in climate development. In addition Penner et al. (1995) developed a personality measure designed to specifically measure pro-social personality orientation, finding that scores on these measures are generally related to pro-social behavior. This perspective on personality may also be important for ethical conduct.

Interpersonal congruence. Meglino and Ravlin (1998) suggest that people who hold similar value systems view the world in similar ways, enabling them to communicate more clearly, predict each other's behavior and more efficiently coordinate activities resulting in reduced role conflict and ambiguity and increased satisfaction with the interpersonal relationship. For instance, individuals whose personal values conflict with the ethical values of their supervisor may be less likely or slow to internalize the climate related to ethics, or may even ignore ethical standards altogether.

Research suggests that interpersonal congruence between supervisors and subordinates is related to the quality of leader-member exchange (e.g., Ashkanasy

and O'Connor, 1997) and increased job satisfaction and organizational commitment (e.g., Meglino et al., 1989, 1992). Individuals whose values are congruent with the values of leaders may view leaders as more credible, and more likely to internalize climate regarding ethics. Additionally, Posner et al. (1985) found that value congruence was positively related to attitudes toward ethical behavior. Together, these findings suggest that value congruence may led to a stronger climate related to ethics.

Person-environment fit. The fit of members' personal characteristics with the values of the organization and leaders is likely to impact climate development. The influence of values on behaviors, attitudes, decisions, performance in likely effected strongly by situational factors. The more salient the ethical values of the organization, the stronger the situational forces that influence behavior. If a person's core personal ethical values are not consistent with behavior norms in the organization's climate, an individual's actions are less likely to act in accordance with the organization's ethical principles.

Organizational ethics may also represent a dimension of P-O fit. Sims and Koen (1997) found that individuals reported they were less likely to leave their current position when their current perceived ethical work climate matched their preferred ethical work climate. Perhaps the initial influence of climate on personal behavior is the determination of whether or not an individual fits a particular organization, then whether or not he or she will stay, and what type of employee he or she will be. For leaders, their role is to make salient the ethical values espoused by the climate related to ethics and cultural values that it supports. Organizations will be better able to attract and retain those individuals whose personal values and ethics are consistent with the organization's values and ethics. Climate will then be strengthened by the attraction and retention of individuals whose values are congruent with the organization.

Establish leader training and mentoring

For climates to be consistent and strong, leaders throughout the organization need to convey similar messages to their employees. Providing training specifically for leaders to help them identify situations of an ethical nature and determine appropriate ways to handle situations will help to reduce ambiguity and build consistency. It is the role of top leaders to provide mentoring and guidance to lower-level leaders regarding organizational values and expectations.

Shared cognitions. The units or areas of responsibility and the ethical challenges that managers encounter are likely to be diverse, as are the personal values of managers. Additionally, the heuristics used by individuals to filter information and determine what information to attend to are likely to be equally as diverse (Johnson et al., 2001). People selectively attend to information stored in their individual mental models to assess the environment and take appropriate action. As people process information independently from one another (Resnick, 1993), individual mental models of ethical challenges and responses will likely differ.

Among top management teams, the sharing of core information among member mental models is believed to facilitate the achievement of consensus during period of strategic choice (Langfield-Smith, 1992; Porac et al., 1989). We make the assumption that training will create shared cognitions among managers regarding environmental cues, ethical challenges, and expected behaviors. Managers will hold shared or overlapping mental models of ethical issues and expectations, which will be practiced, taught and reinforced throughout the organization leading to greater consistency and awareness of ethical behavior.

Values-based leadership

As climate regarding ethics is a values-laden construct, it seems appropriate to train leaders, especially those at middle levels who do the most direct transmission of organizational values (Likert, 1961), to engage in behaviors that facilitate the clarification and adoption of organizational values by subordinates. Such training has been shown to be effective (e.g., Barling et al., 1996). Further, the process by which organizational vision is communicated to followers has been shown to be related to adoption of that vision and to subsequent organizational

effectiveness (e.g., Baum et al., 1998), with strength of delivery being shown to be especially important (Awamleh and Gardner, 1999).

In summary, we posit that leaders impact the climate regarding ethics of their organizational through seven mechanisms:

- Use values-based leadership.
- Set the example.
- Establish clear expectations of ethical conduct.
- Provide feedback, coaching, and support regarding ethical behavior.
- Recognize and reward behaviors that support organizational values.
- Be aware of individual differences among subordinates.
- Establish leader training and mentoring.

A predominant theme that runs through these mechanisms is one of consistency – leaders possess and understand a clear understanding of the organization's values and in turn transmit this understanding through policy, practice and procedure to organizational members. It is important then that we examine in some small detail, the hierarchical nature of leadership in organizations that may either contribute or detract from this consistency.

Multiple systems and multiple leaders

The roles of various departments or subsystems and the stakeholders to whom they are accountable provide different frames of reference for ethical behavior, which may cause different sub-climates regarding ethics to evolve throughout an organization (Weber, 1995). For an organizational climate to exist, there must be some level of agreement across individuals (James et al., 1987; Lindell and Brandt, 2000). Agreement has been found to be greatest among those members who interact regularly with one another (Klein et al., 2001; Rentsch, 1990). Forces that pull the organization in different directions promote the existence of distinct sub-climates, and a weak overall organizational climate regarding ethics.

This issue is further compounded by the existence of multiple organizational leaders, each of whom have different levels of authority, engage in different influence tactics, and may hold different values and ethics. Only in the smallest organizations will one formal leader exist, and even in these situations, the emergence of informal leaders is likely. Additionally, leaders existing at different hierarchical levels serve different functions in organizations.

Strategic leadership is concerned with leadership of organizations, and includes CEO's and other top-level executives (Boal and Hooijberg, 2000). Strategic leaders focus on broad polices and objectives (Barnard, 1938), planning and controlling (Page and Tornow, 1987) and provide a strategic vision that unifies the organization and provides a plan for the future (Smidt, 1998). In contrast, more direct leaders coordinate subsystem operations and provide day-to-day direction, counsel and mentoring to organizational members (Smidt, 1998). Different transmitting mechanisms are likely to be used by each of these groups to embed ethical values and expectations into the organizations.

Strategic leaders establish and communication a unifying vision; make strategic decisions; establish structures, processes, and control systems; manage relations with multiple constituency groups; develop important organizational capabilities; develop new leaders; create and manage the organization's culture and climate; and establish the organization's ethical value system (Hickman, 1998; House and Aditya, 1997; Hunt, 1991; Ireland and Hitt, 1999; Selznick, 1984; Zaccaro, 1996). Their actions and decisions have a broad impact on organizations, however members have less direct contact with strategic level leaders. We suggest that strategic leaders transmit values and ethics via four primary transmitting mechanisms. First, leaders who use the idealized influence and inspirational motivation aspects of transformational leadership will convey the importance of the ethical values, and inspire members to link their own personal values and self-concepts to the organization. Second, members are likely to have less direct contact with strategic leaders. However, these leaders' actions serve as a model of expected behavior at these top levels. Third, strategic leaders establish structure and policies that provide clear expectations regarding ethics to members. And fourth, strategic leaders develop and mentor direct leaders. These activities will help to create consistency and strength in the organization's climate regarding ethics.

Direct leaders are the link between the organization and its members. The enactment of the

supervisor's values by supporting or inhibiting ethical policies communicates the immediate importance for the subordinate. Direct leaders interpret and disseminate top management's organizational policies to subordinates (Likert, 1961), and thus play a critical role in determining the degree to which organizational policies are perceived similarly throughout the organization. As supervisors are also the most direct judge of a member's behavior, and in a position to provide coaching, feedback, support, recognition, and rewards. Members will likely imitate the supervisor's responses to ethical situations (Posner and Schmidt, 1984). Surveys have reported that leader role models are the primary influence on individual ethical behavior, particularly the behavior of direct managers and supervisors (Falkenberg and Herremans, 1995; Posner and Schmidt, 1984).

As we have demonstrated, the behavior of leaders is a powerful communication mechanism that conveys the expectations, values and assumptions of the culture and climate to rest of the organization. Given that multiple subsystems exist and multiple levels of leadership exist, how does an organization create and maintain its desired climate regarding ethics? We suggest that leadership plays the principle role in creating a unified climate, and that different levels of leadership play different roles in establishing and managing a climate regarding ethics. Each level of leadership uses different strategies to influence members' perceptions and actions, thereby embedding ethical values and expectations into the organization's climate.

A primary factor in creating a unified climate is ensuring that strategic leaders and direct leaders communicate and apply a consistent set of ethical standards. To instill core ethical values and modes of conduct as the accepted "way things are around here," leaders across different functions, and across different organizational levels need to work in concert with one another. The core ethical values of the organization need to be adopted by the organization's leadership, and translated to members through the consistent demonstration of these principles in actions that are encouraged, rewarded and socialized. This will help to create a unified and strong climate regarding ethics.

In addition, leaders, particularly strategic leaders, are in a role to interpret information from external environmental forces. The impact of environmental forces is most likely to be detected by leaders, effecting their values, beliefs about the organization, and processes by which they lead others. The influence of environmental factors will likely be strongest for leaders in boundary spanning roles, who are in constant interaction with environmental forces. Their role is to recognize these factors and adapt. Leaders of boundary spanning functions are likely to be the first to experience changes in societal influences, enacting these changes early than other functions. In addition, leaders of boundary spanning functions may be the first to experience isomorphic pressures to conform to the institutionalized beliefs of society or other organizations.

For example, coercive isomorphism can be felt in the relationships between the organization and other institutions it depends on, such as suppliers or key customers (DiMaggio and Powell, 1983). Leaders of areas that must interact directly with these organizations would likely feel pressures to adopt different styles of conduct or ethical values to maintain these relationships. Social norms values or norms that contradict organizational values, could result in leaders of boundary spanning departments enacting ethical policies differently from other areas of the organization.

Aside from leaders of boundary spanning functions, leaders would likely face normative isomorphic pressures to conduct business in accord with the established norms of their profession (DiMaggio and Powell, 1983). The ethical standards of professional organizations and societies will likely influence the personal ethical values that are adopted and acted upon. To fully serve their stakeholders, members may feel presses to adopt a set of ethical principles that differ from the ethic values of the organization. As climates are strengthened through the consistency of leadership in policy enactment, the need for clear communication and coordination across is necessary to achieve this goal.

It is through this synchronized effort and communication between strategic and direct leaders that we posit an organization can ensure that an enduring and stable climate regarding ethics be maintained. Appropriately, we next turn to the members themselves and the role they play in the creation and sustainment of the climate regarding ethics.

Members' transmitting mechanisms

As stated previously, organizational climate is a product of the agreement among individual members' perceptions of the organization. The last section discussed seven mechanisms that leaders use to transmit ethical values and expectations to members and the social environment. We posit that members' values and beliefs further transmit ethical values and expectations throughout the organization, and thereby shape the organization's climate regarding ethics. This occurs through four transmitting mechanisms: trust in leaders, organizational mythology, shared leadership prototypes, and social cohesion.

Trust in leaders

Trust in leadership has been identified as an important component of effective leadership (Bennis and Nanus, 1985; Fairholm, 1994; Zand, 1997) and is a central components follower's perceptions of effective leadership (Hogan et al., 1994). The engendering of trust has also been identified as a means by which transformational leadership operates (Yukl, 1998). Dirks and Ferrin (2002) suggest that trust in leaders is important for building relationships between leaders and subordinates and creating confidence in the leaders' character. When followers have trust in leadership, and believe that the leader's focus is on the collective interests of the group, they are more likely to work toward collective objectives (Dirks, 2000).

Perceived trust in leader is likely an especially important factor in the development of a climate regarding ethics. When perceived trust is low, followers will likely be less inclined to accept the leader's visions and values. As a result there should be greater dispersion among member on what situations involve ethical issues, and how these issues should be addressed – that is, there should be a weaker climate regarding ethics. However, greater trust in leader should lead to greater acceptance of and commitment to the leader's vision and values, resulting in a more consistent understanding among followers on what situations involve ethical issues, and how these issues should be addressed – that is, a stronger climate regarding ethics.

Organizational myths and stories convey the importance of ethical values

Organizational stories and mythology have been viewed as sources of information on organizational culture (Schein, 1992; Trice, 1984). The history of an organization, its core values and fundamental assumptions are embodied in stories of critical events or heroic leaders that have shaped the organization into what it is today. Leadership is the crucial element in the use of organizational stories, where organizational leader are the subject of stories and myths, or simply pass the stories down to new members of the organization. When leaders are the subject of stories, their actions become a role model for a broader audience than simply their direct reports. These actions likely become part of the shared cognitions of organizational members as to what a leadership prototype is.

Additionally, as leaders pass these stories down to members of the organization they further illuminate the importance that is placed on ethical values and behavior. The impact of stories on organization climate is likely strongest for newcomers. The stories become part of their socialization experience, resulting in an initial perception of the organization's climate, without conflicting messages. Whether the stores are detailed descriptions of actual events, or are tales of courageous support for ethical values that are not supported by actual facts, they provide an immediate perspective on the organization's climate for newcomers and serve to reinforce and strength climate for organizational veterans.

Leadership prototypes

Lord et al. (1982, 1984) developed an information processing theory of leadership approximately 20 years ago, by applying Rosch's (1975) categorization theory to the question of leadership. Lord and colleagues argue that people hold leadership prototypes, which describe the attributes and behaviors that are believed to be typical of leaders (Lord et al., 1984). When a person determines whether or not a another person is a leader, this determination is based on matching leader characteristics and behavior to leader prototypes (Lord and Maher, 1991).

Using connectionist network models, Lord et al. (2001) suggest that forces at multiple levels (social, task, and individual) place constraints on individual's

generation of prototypes. Forces within organizations are continuously impacting individual's perceptions of leadership and leadership prototypes. Members of organizations come to hold similar prototypes of effective leaders (Dickson et al., under review). In the present context, this means that members of an organization will develop similar conceptualizations of what it means to be a leader in that organization, and that when they encounter a person who behaves in a fashion consistent with those leadership prototypes, that person will be seen as a leader.

Further, the shared cognitive structures that are formed in this process will make it relatively easy for leaders to garner subordinate support for actions that are consistent with the organization's climate regarding ethics, because thinking in those terms is cognitively efficient. However, it will likely be relatively difficult for a person acting outside the shared understanding of ethical behavior to come to be perceived as a leader, or to overcome those ''well-worn pathways'' of thought about ethical behavior held by organization members (see Hanges et al., 2000, for a discussion of this process at the cultural level of analysis.)

Group cohesion affects social norms and ethical behavior

Social integration, the lasting bonds between individuals embedded within a system, appears to have a powerful impact on unethical behavior within societies and organizations (Cohen, 1995). Strengthening social integration decreases the likelihood that people will engage in unethical or anti-social conduct (Hirschi, 1969; Schmalleger, 1993) by encouraging interpersonal responsibility (Gilligan, 1982; Hoffman, 1976) and providing social support for upholding standards of conduct (Clinard, 1964). Cohen (1995) suggests that three dimensions of social integration foster ethical behavior in organizations, embeddedness, bonding, and moral security. Embeddedness increases a sense of attachment and encourages long-term pro-social actions within and across organizational boundaries. Bonding encourages respect for others, making it less likely to intentionally harm others. And, moral security encourages responsible actions and fulfilling social contracts.

Leadership practices that consider these three dimensions of social integration are likely to create a stronger social environment, building a stronger climate regarding ethics and making it less likely that individuals will engage in behavior that is inconsistent with social norms. In contrast, leadership strategies that encourage interpersonal competition is also likely to increase role stress and group conflict, while decreasing social cohesion encouraging members to focus on individual goals and abandon collective endeavors. As the social environment deteriorates, work stressors tend to have a more pronounced effect on individual outcomes such as morale and depression (Bliese and Britt, 2001). Individuals are likely to develop a sense of isolation from other members and the organization in general.

Implications for direct leadership suggest that management styles emphasizing social cohesion and de-emphasize interpersonal competition will likely increase social integration, particularly within units. Additionally, implementing integrated organizational structures will likely foster positive ethical climates across organizational units. Structures that enable members to clearly identify the interdependencies among units highlights shared concerns, promotes collectivist thinking, and builds trust and interpersonal attachments (Cohen, 1995).

Discussion

While each of the subsystems serves a different function, all functions play a role in the management of a climate regarding ethics. In their discussion of service climate, Schneider and Bowen (1995) described the importance of typical Human Resource functions such as entry, socialization/training, compensation/rewards, and effectiveness criteria, in the creation and maintenance of an organizational climate for service. While this is the essential point of their chapter, they also noted the interdependence of Human Resources and other organizational functions, including Strategic Planning, Marketing, and Operations Management. In short, they advocated a systems perspective for the creation of a service climate, as opposed to viewing customer service as the responsibility of solely the Marketing or Human Resource departments. Organizational members will only believe that the organization puts customers

first when the organization's efforts as a whole are consistent with this principle.

The same logic can clearly be applied to a climate regarding ethics. The formal responsibilities for the establishment and implementation of ethical policies and practices will likely fall within the Legal and/or Human Resource functions. Yet, ethical practices will only become engrained across organizational members if collective organizational efforts are consistent with these principles. Training and socialization programs are important in the creation of climate regarding ethics, however such programs do not exist independently of other Human Resource functions or the rest of the organization. Therefore, only through focused, integrative organizational leadership endeavors across levels and across functions efforts to create consistency throughout the organization with regard to ethics will the organization be able to create and maintain a strong, unified climate regarding ethics.

We have identified several recommended tactics for organizational leaders to implement desired climate regarding ethics in organizations. Many organizations are beginning to make use of one or a few of these strategies, but few are approaching climate regarding ethics as something to develop to prevent subsequent difficulties, rather than as something to develop in the wake of ethical infractions. We obviously advocate the former.

This influence of leaders occurs in several ways. First, leaders directly influence behavior by establishing quid pro quo relationships with followers, such that followers enter into contractual-type exchange relationships with leaders. Subordinates carry out the directives of the leader simply because of their expectation of return (Bass, 1985). Second, leaders influence values (and thereby behavior) by establishing and maintaining the norms of the organization, including norms associated with ethics and ethical behavior (e.g., Schein, 1983). Third, leaders may be emulated by subordinates who admire them (Bandura, 1985). Fourth, leaders can serve as role models for subordinates who see a leader behave in a certain way and recognize the rightness of that behavior. The subordinates then adopt that standard as their own not because of admiration for the leader, but rather because they see the rightness of the behavior itself. Finally, leaders can produce short-run changes by influencing the working self-concept of followers, and can produce more enduring changes in values structures through the development of ''chronic schema,'' or memory structures that embed those values (Lord et al., 1999). All of these things combine in Barnard's (1938) admonition that executive positions require ''the faculty of creating morals for others'' (p. 272, emphasis in original).

In other words, many of the normal everyday practices and events of organizational life serve to influence the values of the people within those organizations. Without attention to the organizational structures and processes, the types of role modeling and other leader influences, and the socialization process in general, these effects will be haphazard, with unknown eventual organizational outcomes. With proper planning and attention, however, they can lead toward the creation of desired organizational climates, including the desired climate regarding ethics. Thus, when Evans (1998) suggests that charismatic models of leadership encourage managers to actively work to change their employees subordinates' values systems, and asks ''Do managers have that right?'', we reply that indeed they do have that right, and further, that obligation.

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