



LEADERSHIP ASSESSMENT &  
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**EXTRACT - FEATURES ARTICLE**

# Ethical Leadership and Corporate Governance



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## Comments on Ray Elliott's Invited Presentation for Victoria University at the Third World Congress, International Society for Business, Economics and Ethics.

So often we hear in the newspapers of the misdemeanors of our corporate leaders and their lack of ethical principles. The International Society for Business Ethics and Economics (ISBEE) addressed this issue at its 2004 Congress held from 3-6th July, 2004 at Melbourne University. Among 60 countries and many universities represented at the Congress was The Centre for International Corporate Governance Research from Victoria University (CICGR). Corporate governance generally refers to the processes by which organisations are directed, controlled and held to account. It encompasses

leadership, authority, accountability, stewardship, direction and control as exercised in organisations. As a major objective of the Centre is to foster improvements in corporate governance and behaviour, it was pleased to accept the invitation from ISBEE to sponsor a session titled Leadership and Accountability. Of course, in addressing ethical leadership the Centre turned to our Research Associate Ray Elliott.

Ray Elliott has an enviable knowledge of, and experience in, research into leadership and ethical issues. In his invited paper,

"Ethical Leadership and Business Culture: Transformational Pathways within Boards and Management for Enhanced Integrity, Trust and Organisational Actualisation", he explored the question of whether transformational leadership has an ethical dimension. Previous studies have shown that transformational leadership is allied with organisational cultures that are supportive, innovative, performance-oriented and socially responsive. These are desirable attributes, but not necessarily indicative of whether a transformational style of leadership promoted ethical behaviour. Ray's recent research addressed this issue. He investigated how measures of transformational leadership could discriminate between leaders on ethical conduct and ethics, and the extent to which they could predict trust and commitment between leaders, followers and associates.

His paper was very well received and created a great deal of interest. CICGR was delighted with the response and looks forward to our further association with Ray and the results of his excellent research into transformational leadership and its relationship to ethical values and principles.

**by Professor Anona Armstrong**

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## MLQ5x Items Which Predict the Ethical Character of 'High' and 'Low' Transformational Leadership Styles: Some Australian Research Findings

**ISBEE World Congress Paper -  
Ray Elliott, for Victoria University &  
O.E.Consultancy**

**This extract is from the invited paper for the ISBEE session sponsored by Victoria University  
See Ethical Leadership and Corporate Governance  
introduction by Professor Anona Armstrong.**

*This paper presented 'leadership' as a multi-level phenomenon at individual group and organisational culture levels and argued that it has significance for boardrooms and management alike. It began by surveying important independent evidence-based research that demonstrates the power of transformational leadership to effect many desirable outcomes, with special attention to how it builds trust and commitment, a team collaborative orientation, shared values, purpose and vision in organisational life. It encourages and supports innovation and the open discussion of issues and ideas so that challenges become opportunities rather than threats (Bass, 1998). Such leadership promotes flexibility and adaptability and is rated at both individual and organisational levels as being highly effective. This first section will be packaged in several short pieces for the MLQ Accredited Network and their clients.*

*What follows is a summary of some in-house research on the Australian MLQ database, which formed a second section of this paper. Ray and MLQ Research Associate Josie Palermo conducted this research. The full paper of 5,500+ words plus references is to be placed on the Internet site for Victoria University- CICGR ([www.businessandlaw.vu.edu.au/cicgr/Default.htm](http://www.businessandlaw.vu.edu.au/cicgr/Default.htm)) and at OEC ([www.oecy.com.au](http://www.oecy.com.au).)*

When expert raters in ethics examined the thirty-six leadership questions in the MLQ5x scale, two items were consistently identified as significant indicators of the ethical competence of leaders: item 23 'considers the moral and ethical consequences of decisions' and item 6 'talks about his/her most important beliefs and values'. Elliott and Palermo (2004) investigated this 'ethical aspect' of leadership through a series of hierarchical regression analyses, loading all the transformational items first. This analysis sought to find the predictors of these two ethical items for the top 10% and bottom 10% of transformational leaders for the entire Australian database.

As expected these high and low transformational leaders differed markedly on the nine MLQ item outcome scales: the mean leader

effectiveness rating was 2.0 ('sometimes') for low transformational leaders and 3.8 ('frequently, if not always') for high transformational leaders. Similar differences are found for measures of 'extra effort' and 'satisfaction'.

Among the results, two stood out. Firstly, it was found that different leadership behaviours and attributes are associated with each of these two identified ethical items for the high and low transformational leaders. Eighteen out of a total of thirty-four possible leadership style items in the MLQ5x play a significant part in predicting the two identified explicitly ethical behaviour items in high and low transformational leaders. It is clear that the content of the ethical character of leadership behaviour is rich and diverse.

Secondly, the ethical dimension of leadership is not a one-dimensional construct: there are marked differences between the behavioural items that predict the identified ethical items for both the high and low transformational leaders: indeed items are not shared as predictors in common, except four low transformational leaders. The behaviours associated with ratings of ethical leadership change and are dependent on the overall level of display of transformational leadership by a leader. See the results table below.

The paper concluded that the contribution of the MLQ5x ethical leadership items is to be seen within the overall framework of the impacts of transformational leadership generally. Boards and management teams in organisations need to optimise such transformational leadership behaviours at individual, group and organisational levels to enhance trust, and commitment. Through such increases, organisational actualisation will be advanced through –

- Greater flexibility, innovation, and responsiveness to a rapidly changing global environment,
- Increases in organisational effectiveness ratings,
- The maximisation of the potential and leveraging of their human capital, and
- Adding to elevated bottom line performance indicators.

References:

Bass, B. M. (1998). *Transformational Leadership: Industry, Military, and Educational Impact*. Mahwah, New Jersey: Lawrence Erlbaum Associates.

Elliott, R.H. and Palermo, J. (2004). Relationships between high and low transformational leadership and ethical competence for Australian leaders. Unpublished in-house paper: MLQ Leadership Services Pty Ltd.

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