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# PROTECTING SHAREHOLDER VALUE: UNETHICAL CORPORATE LEADERSHIP THREATENS THE AMERICAN DREAM

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## Abstract

This paper reviews some of the most prominent corporate financial scandals reported by public media. Despite the existence of a growing number of corporations with written policies on ethical conduct, unethical behavior appears unabated. This situation confirms that handbooks and manuals with policies and compliance rules regarding codes of ethics or conduct are inadequate to control unethical practices. The review shows that the aggressive pursuit of policies and practices that are primarily designed to increase share price is the major contributor to unethical behavior in corporate leadership. Such practices have resulted in extravagant losses in shareholders' value. The paper argues that corporate leaders can ameliorate ethical misconduct in organizations by making decisions with shareholders in mind, ensuring mutual trust and confidence among shareholders, employees and consumers in the ethics of the organization, and establishing a corporate leadership accountability policy.

The purposes of this paper are to investigate the financial impact of unethical corporate leadership on shareholder value and to explore practical and transparent ways in which an ethical culture is achievable and sustainable in corporations.

**Keywords:** shareholder value, ethical leadership, mutual trust, accountability.

## Introduction

The relationship between corporate managers and shareholders has been a puzzle since the inception of the corporation. Shareholders invest in corporations with the primary objective of increasing their wealth. It is the responsibility of the management of these corporations to act in a manner that is conducive to fulfilling shareholders' objectives. A brief review of the evolution of this "contract" between shareholders and corporate managers exposes the complexity of the relationship, which is further complicated by the potential of conflict of interest on the part of corporate leaders.

Public corporations were created in the 1800s, allowing an individual who bought shares in a corporation to become one of the owners. Corporations were chartered by states to perform functions that were in the public interest such as building railroads, and could earn a profit for doing so. The shareholders in turn hire people to manage their corporation (property) on their behalf, with the expectation of an increase in their wealth. Under this arrangement, it was not clear whether the managers and the Corporation were separate entities nor whether the shareholders or the managers had final control over the Corporation. This ambiguity was clarified by the 1886 Supreme Court case of *Santa Clara County v. Southern Pacific Railroad*. In this case the Court assigned "personhood" to Corporations. The ruling gave equal rights to shareholders, and to Corporations and their agents (managers). The Court's statement is as follows:

The court does not wish to hear argument on the question whether the provision in the Fourteenth Amendment to the Constitution, which forbids a State to deny to any person within its jurisdiction equal

protection of the laws, applies to these corporations. We are all of the opinion that it does (Korten, 2000, pp. 185-6).

By the 1990s corporations came to assume their own identity (Stout, 2012). Shareholders retain ownership of their corporations, but do not control them. This relationship raises questions: In whose interest does the corporation exist, and what is the responsibility of corporate management to shareholders? This question has evoked controversy for decades (Berle, 1931; Dodd, 1932). Both held the view that the purpose of management is to maximize shareholder value. The controversy centers on two opposing views: (1) the power to maximize shareholder value is subject to management's discretion, and (2) the power is absolute and should be the only measure of management's performance. How managements respond to these questions demonstrates their understanding of the term "maximizing shareholder value."

The meaning of the term "maximizing shareholder value" is fluid and therefore can be interpreted from the strategies the corporation pursues at all levels of its leadership (Board of Directors, executive, business unit and functional operations). These strategies consist of the competitive choices that managers make about how to (1) attract and please customers, (2) compete successfully (3) grow the business (4) conduct operations (5) achieve targets objectives. (6) attract and please shareholders.

The literature discussions in the literature on ethical leadership largely center on highly normative human relationship context, focusing on corporate leaders' ethics through the lens of their employees. The concept of business ethics has been viewed through the lens of leaders' behavior and persona (e.g. DeGeorge, (1986), Minkes, Small, & Chatterjee (1999), Trevino, Hartman, & Brown (2000), Mihelic, et. al. (2010); Bello (2012); personality characteristics (Mihelic, et. al. (2010), or love (Kouzes & Posner (1992). In this context the moral values of the leader of a corporation determines whether the organization is ethical or unethical. The literature gives scant attention to shareholders' perceptions and interest, though Milton Friedman argues these constitute the primary reason for the existence of corporations (Prevos and Watson, 2021). The shareholder primacy doctrine has its roots in a study by Berle and Means (1932), who argue that the power granted to the management of corporations should be used solely for the benefit of shareholders. The literature is not settled on whether benefits for shareholders consists in: providing for the public interest or maximizing profits? In practice shareholders have diverse interests including financial interest. The growing interest of shareholders in socially responsible investing indicates their concern with issues related to climate change and other public interest issues (Benjamin, 2021). However, the term "maximizing shareholder value" is construed or misconstrued by some corporate leaders to mean the pursuit of higher share prices.

The need to couple ethics with corporate leadership has grown as corporate scandals are increasingly reported in the public media. People invest in corporations with the expectation of increasing their wealth in pursuit of the "American Dream." The relationship between shareholders and corporate leadership is based on trust on the part of shareholders and professional care on the part of corporate leadership. Shareholders' mistrust in corporate leadership may fuel expectation of unreasonable returns, which in turn exerts pressure on management to pursue unrealistic results. Pressure from activist shareholders acting mainly in their own interest might be more potent than that from generic shareholders. Such pressure may include threats to the jobs of executives. Professional care requires management to act in the best interest of their shareholders over their own interest. It requires that management to develop confidence in their ability to cultivate the trust and support of their shareholders. It also requires management to protect the reputation of the corporation by, among other things, acting ethically by avoiding reckless behavior driven by their self-interest. Invariably, the

onus is on corporate leadership to create and sustain an ethical organizational culture that earns the trust of shareholders, and protects the capital shareholders entrusted to them.

### **Review of the literature**

There is a general perception among the public as well as some top managers of US corporations that business leaders are unethical. According to the 2021 Global Business Ethics Survey Report), in 2020 only 33 percent of top managers believed that they were working in a strong ethical culture, 62 percent of top managers observed misconduct, and 92 percent of top managers experienced retaliation after reporting misconduct. These findings are consistent with earlier reports which found that CEOs and CFOs were named in 83 percent of cases involving fraudulent behavior (Boyle, Carpenter, & Hermanson, 2012). The public perception of corporate leaders may have some impact on their attitude toward the country's economic system. Stout (2012), cites a poll which shows that Americans' support for capitalism and free-enterprise fell from 80 percent to only 59 percent between 2002 and 2010. This decline correlates with the reporting of corporate financial scandals in the media. Meanwhile, Yang (2013), asserts that corporate America's values have changed under corporate leaders' pretext of maximizing shareholder value.

Babri, et. al. (2021) reported that 95 percent of US Fortune 100 and Global Fortune 100 companies have a code of ethics. Nonetheless, the wide prevalence of these codes appears to have no noticeable impact on corporate unethical practices. A probable reason for this is that there is no consensus as to what business ethics is and whether it even applies to business transactions. Korn (2013) questioned whether ethics add value to a business. Brenkert, (2010), opined that even if business ethicists can rationally defend what businesses should be doing, unless they can relate their advice to how businesses operate, it will be ignored. The question of whether businesspeople can be ethical is explored by Baumhart (1961). Milton Friedman argued that the corporation's only responsibility is to increase shareholder value without deception and fraud, (Prevos & Watson, 2021). This statement recognizes the possibility of misconduct in business transactions, but it does not offer a meaning for deception and fraud.

Efforts initiated by Trevino and Weaver (1994) to find a natural locus for business ethics in organizations continues. They questioned whether there are one or two forms business ethics (normative and empirical) and whether they could be integrated. The normative approach or moral philosophy is prescriptive while the empirical approach (a natural science style inquiry) is descriptive or predictive. Donaldson (1994) contends that the two methodologies are incompatible. Donaldson argues that it is not possible to explain practical issues in business in a manner that combines normative and empirical reasoning. He further argues that the normative approach is predominately about guiding choice and conduct in all situations, while the empirical approach primarily relies on past, present and future facts. These theories differ from that of DeGeorge (1986) who espouses a single, interdisciplinary business ethics.

Shareholders are indifferent to the ethical theory (normative or empirical) on which corporate leaders rely on in their decision-making process. Rather they are concerned with whether decisions are made in their best interest. This is evident in the complaints in class action lawsuits they file against corporations. The complaints usually claim discriminatory, reckless or self-indulgent practices. The absence of a definitive set of principles holding corporate leaders responsible for their behavior poses a challenge for injured shareholders.

Business ethics is mostly evaluated through concepts such as honesty, trustworthiness, courage, and integrity in leaders' relationship to followers. Trevino and Nelson (2011) defined business ethics as behavior that is consistent with the principles, norms, and standards of business practice that have been agreed upon by society. However,

the environment in which people work may force them to make choices they could never have imagined previously (Carucci, 2016). The 2021 Global Business Ethics Survey, reported that 51 percent of top management said they were pressured to compromise ethical standards, supporting Carucci 's (2016) observation. Bazerman and Gino (2012) argue that making people aware of the ethical implications of their decisions can develop their moral sensitivity. However, cognitive biases may interfere with ethical decision making. Bazerman and Tenbrusel (2011) describe cognitive bias or “motivated blindness” as the tendency for people to be oblivious to unethical behavior when it is in their interest to do so. Hoyk and Hersey (2010) identified several “psychological traps” that have the potential to increase the chance that individuals will behave unethically. These traps include Obedience to Authority, Need for Closure, The False Consensus Effect, being Lost in the Group, and Self-Enhancement. They argue that once in a psychological trap, an individual or organization is likely to continue to behave unethically until a disaster occurs.

Moral virtue ethicists suggest that people are more likely to learn moral values through habit and practice than through reasoning and instructions (Copp, 2007). If moral virtue comes about as a result of habit, corporate leaders are obligated to set positive examples not only for the people they lead, but also for the people to whom they have a fiduciary responsibility. Corporate leadership should not award themselves exorbitant compensation based on short-term share prices at the expense of returns to shareholders. Rather they should guard against sending unintended messages and insist on making the highest ethical standard the norm.

The ability to choose between right and wrong requires knowledge and understanding (Sliwa, 2017). The leadership of a corporation provides the incentives and rewards that link the people in its organizational structure. If the incentives and rewards are for unethical practices, these unethical practices will permeate the organization. Merchant (1987), suggests that corporations could resolve unethical behavior by, among other steps, setting realistic performance targets, and deemphasizing short-term-targets. According to Clarke (2011), managing ethical behavior in a corporation requires a systemic approach, which resides in its governance.

Corporate governance, and by extension, corporate leadership are responsible for influencing the moral behavior of the corporation (Sonenshein, 2005). The leadership of workplaces has a responsibility to eliminate the conditions that develop and nurture unethical behavior (Sonenshein (2005). Drucker (1996), posits that “the executive is, first of all, expected to get the right things done” p. 1. According to the OECD:

Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders ... Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and its shareholders and should facilitate effective monitoring (OECD, 2004).

The Institute of Internal Auditors (2012) states the following regarding the crucial need for auditors to create a corporate culture where ethical decisions are made:

What rationalization does a company make to justify a corporate culture where ethics are ignored? In recent years, greed, fraud, and a lack of ethical conduct have led to the collapse of many organizations. A variety of internal and external pressures can lead companies down the wrong path. And once the first misstep is taken, it's a slippery slope to hurting stakeholders, the community, and your reputation.

Corporations have mental models referring to "the core concepts of the corporation, the beliefs and assumptions, the cause-and-effect relationships, the guidelines for interpreting language and signals, the stories repeated within the corporate walls" (Foster & Kaplan, 2001, p. 18). According to Foster and Kaplan, mental models are invisible and implicit yet real, enduring and omnipresent. They develop and nurture interrelationships and interdependence. Corporate systems are built on mental models, some of which have produced less than virtuous results as demonstrated later in this paper.

This paper focuses on the impact of unethical corporate leadership on shareholders' wealth. It also explores ways in which leaders can create an organizational culture that discourages unethical behavior in the workplace. The unethical forms of conducts revealed in this review are pervasive and persistent involving a wide variety of industries and covering decades. Several forms of publicly reported unethical behavior are reviewed below.

### **Countrywide Toxic Mortgages**

Morgenson (2011), reported that the former Chief Executive Officer of Countrywide Financial, then the largest mortgage lender in the United States, knowingly developed and sold questionable loans. Morgenson reported that "E-mails and other documents supplied to regulators in the Securities and Exchange Commission's case against Mr. Mozilo showed him discussing the company's lending practices and describing some of its loans as 'toxic' and 'poison' (Morgenson, 2011). "Nevertheless, the company kept selling the types of loans Mr. Mozilo was denigrating". (p. 20). Countrywide paid \$335 million in compensation to victims it discriminated against (racial and ethnic minorities), and the price of its shares plummeted. Ultimately, Bank of America absorbed the company (DOJ/Countrywide Settlement Information, 2015).

### **Shares Buybacks**

One potential conflict of interest involves the compensation of chief executive officers (CEOs). Although Boards of Directors set executive compensation, executives have significant influence over their compensation through their management decisions. Among these areas of influence are stock buybacks and stock options. When a company buys back their shares, shareholders who sold their shares may benefit from the immediate cash flows. On the other hand, executives stand to benefit significantly from buybacks because (1) they tend to hold many shares and stock options, and (2) earnings per share, another variable in their compensation calculation, will increase when there are fewer outstanding shares. Since the value of the company stays the same, the result of a buyback is usually an increase in the share price, which mostly benefits executives. Lazonick (2014) argues that when a company buys back its stocks it reduces the intrinsic value of the stocks held by continuing shareholders. The author notes that between 2003 and 2012, 449 of the 500 S&P companies spent \$2.4 trillion to buy back their stock. Sozzi, (2021), reported that in 2021, the 20 biggest companies in the world used their significant cash piles to pump up their stock prices. Another argument against shares buy backs is that cash used to accomplish the buyback is not being used to strengthen the future of the company through capital investments. Capital investment, leads to greater profits for the firm and the potential for higher returns to shareholders.

### **Goldman Sachs' Mortgage Securitization Scandal**

From 2005 to 2007, Goldman Sachs issued and underwrote many mortgages and securities that had been backed by residential loans borrowed by consumers with shoddy credit ratings. These were Alternative Mortgage Products, - securities backed by mortgage receivables called mortgage-backed securities (MBS), and securities backed by other types of

receivables called asset-backed securities (ABS). Goldman Sachs ultimately settled an investors' lawsuit for \$5.1 billion. This settlement held the bank "accountable for its 'serious misconduct' in falsely assuring investors that securities it sold were backed by sound mortgages" (Shen, 2021).

### **Goldman Sachs Foreign Bribery Scheme**

Goldman Sachs helped raise \$6.5 billion for 1MDB, a Malaysia government project, by selling bonds to investors from 2009 to 2014. Goldman earned \$600 million in fees from the deals, but about \$4.5 billion of the funds raised was presumed stolen by an advisor. The courts agreed with prosecutors that senior Goldman executives ignored warning signs of fraud in their dealings with 1MDB and an adviser to the fund. In 2020, the bank paid \$2.9 billion in fines, for its fraudulent conspiracy (Bogage, 2020).

### **Fraudulent Accounting Practices at Monsanto**

Monsanto a large agribusiness engaged in deceptive accounting practices from 2009 to 2011 by not reporting revenues and related costs associated with rebates in the same year. A whistleblower received \$22 million for exposing the practice (Morgenson, 2016).

### **General Motors' defective ignition**

There are reports that top management at General Motors was aware of a defective ignition switch for a decade. The defects resulted in 124 dead and 275 injured. The class-action litigation against G.M. alleged that the company has a history of concealing defects (Stout, 2014). General Motors paid \$120 million to settle claims from dozens of states and an estimated \$2.5 billion to in penalties including \$900 million to settle a U.S. Department of Justice criminal case (Lawrence, 2017).

### **Takata Company's Defective Airbag**

There are allegations that the Takata Company concealed results of airbag tests that were conducted in 2004. Apparently, Takata airbag inflators can explode after an accident and harm vehicle occupants by shooting out metal and plastic shrapnel. About 34 million vehicles have been recalled – the largest automotive recall in history (Atiyeh & Blackwell, 2015). The company used a highly dangerous propellant in the manufacture of its airbags because it was 10 times less expensive than a safer product (Berfield, et al, 2016). A \$650 million court-approved settlement forced the company into bankruptcy (Associated Press, 2018).

### **AIG's fraudulent Accounting Practices**

The American Insurance Group allegedly booked loans as revenue, steered clients to insurers with whom it had payoff agreements, told traders to inflate its stock price, and constructed transactions with no economic substance. The company paid over \$2 billion in fines and restitutions. Some executives were sentenced to prison for one to four years (Young, 2009).

### **Lehman Brother's Toxic Loans**

It has been reported that Lehman Brothers sold \$50 billion in toxic loans to a bank with the understanding that they would be bought back eventually. This financial engineering tactics created the impression that the company had \$50 billion more in cash and \$50 billion less in toxic assets. The purpose of this approach was to under-report its dependence on borrowed money. The company went bankrupt in 2008 (Merced & Sorkin, 2010).

### **Volkswagen's Emission Fraud**

For nearly a decade, from 2006 to September 2015, Volkswagen touted “Clean Diesel” vehicles. Parloff (2018) reported that “The exhaust control equipment in the VW diesels was programmed to shut off as soon as the cars rolled off the regulators’ test beds. The scandal cost shareholders \$25 billion in settlements (Parloff, 2018).

### **Morgan Stanley’s Inverse EFT Investment Fraud**

The SEC ordered Morgan Stanley to pay an \$8 million penalty and admit wrongdoing for failure to ensure that clients understood the risks involved with purchasing inverse exchange-traded funds, which typically are suitable for investors planning to hold them longer than one trading session unless they are used as part of a trading or hedging strategy. The SEC found that the firm solicited clients to purchase inverse ETFs in retirement and other accounts where the securities were held long term. (Dye, 2017).

### **Wells Fargo’s Fake Accounts**

In 2020 Wells Fargo Bank was fined \$3 billion to settle criminal and civil charges. Federal regulators accused the bank of opening accounts in its customers’ names without their consent and for selling unnecessary products to its customers. (Kelly, 2020).

### **Waste Management Corporation accounting fraud**

The executives of Waste Management Corporation reported fake earnings of \$1.7 billion in 1998. Allegedly, the company falsely increased depreciation life and inflating the salvage value of their property, plant and equipment in their balance sheet. It settled a shareholder class action suit for \$457 million (Tharp, 2002).

### **Enron’s Fraudulent Accounting Practices**

The management of Enron Corporation left huge debts on their balance sheet. The company also used partnerships it created to hide heavy losses. Thousands of investors lost billions of dollars (Petrick & Scherer, 2003). The company declared bankruptcy in 2001.

### **WorldCom’s Accounting Fraud**

The management of WorldCom underreported line costs by capitalizing rather than expensing them, and also inflated revenues with fake accounting entries. The CEO was indicted for fraud, conspiracy, and filing false documents with regulators (Lyke & Jickling, 2002). The company went bankrupt in 2002.

### **Citibank’s Securities fraud.**

It was reported that Citigroup settled with Security and Exchange Commission for more than \$12 million for misleading investors about its high-frequency traders and dark pools operation. Flitter (2018). In a dark pool, only the buyer and the seller see the information about a particular trade.

### **Toyota Defective Accelerator**

Toyota Motors made deceptive statements to regulators, Congress and the public for years about the safety problems that caused its vehicles to speed up uncontrollably. Its settlement of \$1.2 billion, with the Justice Department amounted to more than a third of Toyota’s 2013 profit. (Douglas & Fletcher, 2014)

### **Facebook privacy scandals**

The FTC fined Facebook a record \$5 billion penalty to settle claims that the company deceived its users about the privacy of their personal information in the fallout from

the Cambridge Analytica scandal. Facebook conceded that the violation was a “breach of trust” with its users. Facebook also agreed to set up an independent privacy committee (Nunez, 2019). Facebook paid another \$550 million to settle a privacy lawsuit involving allegations that the company violated an Illinois state law that requires companies to obtain permission from users to store their biometric data, which include data that links faces to individual identities (Singer & Isaac, 2020).

### **The Kraft Heinz Company accounting scandal**

In 2021 the SEC charged Kraft and its former executives with engaging in improper expense management practices that spanned many years and involved numerous misleading transactions, millions in bogus cost savings, and a pervasive breakdown in accounting controls. The company was accused of engaging in excessive restatement of financial statements and delayed financial reporting. Kraft and its former executives were held accountable for placing the pursuit of cost savings above compliance with the law. The company was charged \$62 million for the violation (Dangor, 2021)

### **Discussion and Recommendation**

Shareholders invest in corporations in pursuit of their financial dream. Volumes have been written on the devastating impact that unethical corporate leadership had on macroeconomies, from the Mississippi Bubble collapse of the 18<sup>th</sup> century to the 2008 real estate market collapse. Shareholders were the frontline victims of all of these major financial catastrophes and they continue to endure the cost of unethical leadership in corporations. yet their interest in conversations regarding ethical corporate leadership appears to be an afterthought.

This paper highlights a few of the massive frauds and unethical dealings committed by corporate leaders. Consistent with Merchant’s assertions, this paper considers additional actions that corporate leaders could take to ameliorate unethical behavior in the workplace. The following recommended actions are practical and encourage transparency (1) make decisions with shareholders in mind (2) ensure mutual trust and confidence in ethics of the organization, and (3) establish a corporate ethical leadership accountability policy.

#### *Make Decisions with Shareholders in Mind*

In an era of growing corporate financial scandal, shareholders deserve more attention. The corporation is created by shareholders and primarily for the shareholders. The shareholder dream is to build wealth for future consumption or future generations. However, history has shown that corporate leadership often make decisions that disproportionately benefit themselves. Decisions that involve inflated stock price and share buybacks are more advantageous to CEOs than to the majority of shareholders. Share price is a major factor in the determination of CEOs compensation and because they individually tend to own significantly more shares than the average shareholder, they benefit more from share buybacks. Transaction in mergers and acquisitions is another area of financial decisions in which shareholders are vulnerable to unethical corporate leadership self-dealing. Mergers between public companies often occur with the declared goal of increasing shareholder value. However, in some merger and acquisition cases, executive compensation agreements include “change-of-control” provisions paying them bonuses if the company is merged or acquired. Mergers may also include a “collar agreement” Collars limit the downside for one company’s shareholders at the expense of the shareholders of the other company

#### *Ensure Mutual Trust and Confidence in the Ethics of the Organization*

Ethics and competitiveness are inseparable. There is consensus in the literature that ethical leadership inspires and motivates followers. However, ethical leadership must also be perceived outside the walls the corporation. Shareholders, employees, and consumers

compete for the same resources of the corporation in the form of shareholders' returns, employees' benefits and consumers' price and safety, respectively, but they do not bear the same degree of risk from unethical corporate leadership. Corporate leaders should be cognizant of this reality when they are confronted with ethical dilemmas regarding issues that are relevant to shareholders' interest. Much has been written about employees' attitudes as they relate to business ethics. Ferrell, et. al. (2019) and others evaluate consumers' attitudes concerning business ethics and social responsibility. While consumers are the source of profit and therefore return on investment to shareholders, it is shareholders who suffer the consequences of unethical leadership, as demonstrated in this paper. Drucker (1981) espouses the "ethics of interdependence, where the right behavior is one of mutual dependence because it optimizes benefits for both parties." p. 10. Mutual trust can be the ethical buttress that helps shareholders have reasonable expectations from their investments and minimize corporate leaders' temptation to engage in reckless and self-indulgent behavior. Shareholders, employees and consumers must believe that the organization can and is working in their best interest.

Corporate leaders can develop mutual trust among these stakeholders by focusing on the "cardinal virtues" (Riggio et al., 2010), of prudence, courage, temperance, and justice as motivating factors behind leaders' ethical behavior. Prudence is concerned with the leader's ability to make decision in situations of moral dilemma, both from a personal moral value and the consequences resulting from the decision. Courage focuses on the persistence and strength it takes for leaders to be ethical. Temperance is defined as the leader's predisposition to resist acting in self-interest. Finally, justice, which is concerned with perceived fairness. These virtues are evaluated in an intra-organizational context. However, they are also applicable in the relationship between corporate leaders and shareholders.

#### *Establish a Corporate Ethical Leadership Accountability Policy*

The purpose of this policy is to deter reckless and self-indulgent decisions by leaders. It should be a corporate self-policing strategy monitored by the Board of Directors. The policy should keep the Board of Directors engaged in the planning process of the organization. It is very difficult to trust an organization that does only what is right in the eyes of its executives. Top managers have consistently had more favorable views of their organizations' ethical culture than other employees (Global Business Ethics Survey,2021). Business ethics are imparted by both official policy and practices of the organization. Leaders cannot be allowed to hide behind willful blindness and willful ignorance. The legal and regulatory systems ensure some level of corporate accountability to the public, but perpetrators are rarely punished for their misbehavior. Penalties are usually assessed against the corporation, which means the shareholders. Ultimately, corporate leaders should be held responsible for their unethical behavior. Although there is no consensus on what constitutes unethical leadership, shareholders must be at the center of the evaluation of whether leadership is ethical, given their stake in the corporation.

The moral principles discussed are essential for the effective operation of organizations, but they seem to focus disproportionately on the relationship between corporate leaders and their followers. How moral principles are applied requires corporate leadership to think outside the walls of corporations. Specifically, corporate leaders should be cognizant of the impact their decisions will have on shareholders. The recommendations are intended to be of use in moral reflection of many kinds and to facilitate further discussions on the relationship between shareholders and corporate leaders.

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