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Role Of Ethical Leadership and Its Impact on Corporate Governance in India

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Abstract:

The importance of ethical leadership in influencing corporate governance is establishing the ways in which firms are managed and controlled in an efficient and ethical manner. Corporate governance is establishing a system that structures a company in a manner that allows the directed and controlled management to be done in an efficient and ethically responsible manner. It is the ongoing relationship or partnership of owners, participants, management, and boards to set and achieve corporate goals within the constraints of order and law. Indeed, corporate governance has practices that are an important part of the increasing economic growth and acceptance of businesses with various categories of stakeholders.

This paper analyzes the relationship that exists between ethical leadership and corporate governance, focusing on the principles of ethical leadership and how they positively impact industrial recognition, increase workers satisfaction and engagement, and promote stakeholder trust. It analyzes the barriers and challenges of ethical leadership in corporate governance with the help of real-life case studies.

Keywords: Ethical Leadership, Corporate Governance, Stakeholder Trust, Organizational Culture

Introduction

The importance of ethical leadership in creating a governance framework where business and legal entities can manage, monitor and control each other in a complex and interconnected operational ecosystem is undisputed.

Systems of corporate governance attempt to delineate the parameters within which a given company may operate, and promote the management of a company within an ethical framework. It aims to address the ongoing relationships and partnerships of the shareholders and stakeholders, board of directors, and management, to achieve and maintain the company's objectives within the respective boundaries of the company's administration and judiciary. Systems and frameworks of corporate governance are considered to be fundamental to a country's economic development and a company's capacity to interact with multiple stakeholders. During the last decade of the 20th century, an interest in corporate governance began to spread among a large number of organizations that deal with governance. It is vital for stakeholders to be involved in the design and development of governance frameworks, but it is even more critical that such governance be conceptualized and built as an ethical framework. This essay intends to deal with the ethics of corporate governance as it relates to the cultivation of ethical leadership, and for this purpose, the paper has been divided into a number of subsections aimed either at providing a framework for defining corporate governance or for addressing the ethical leadership dimension vis a vis corporate governance.

It is only after developing an appreciation for these concepts that one attempts to engage more deeply with the dimensions of corporate governance and direct the dialogue to suitable frameworks.

Furthermore, the methodology is largely one of design, while sources are exclusively of a secondary nature [2, 3].

The influence of ethical leadership on corporate governance

In the last couple of decades or so, corporate governance has assumed centre stage in the arena of business. The design of governance systems such as ethics, which encompasses both the financial and non-financial dimensions of the viability of the firm, has attracted considerable attention from both researchers and practitioners. Considering the differences in legal systems, finance and practice in business from one country to the other, the individual behavioral disposition, particularly of the top management, is pivotal. Ethical leadership is held to be the most critical in setting the tone in the organization, which cascades down to all other governance and management processes and controls. In a nutshell, ethical leadership is very instrumental in the consolidation of the governance system and the decisions made within that system.

From an ethical standpoint, corporate governance suggests either a top management function or a positive law or both. From this standpoint, ethical leadership is not only a matter of fact and opinion, but also the reasoning and the behavior of top management toward the stakeholders, that is, the customers, the employees, the creditors, the society, and so on. From this position, the organization's decisions are made under ethical governance, as far as they are legally accepted, but not purely on legal terms. In another instance, ethical leadership and an organizational legally accepted position would justify and rationally defend the purposeful socially positive function of such organization. From ethical governance perspective, the function of the organization has a socially responsible must and will ethically govern. Ethical governance positively embodies and enhances the quality system, as though top management directly operated

the system. In this manner, organizational effectiveness is accomplished optimally.

Defining ethical leadership

The different forms of leadership present the different definitions of ethical leadership. This is leadership that practices ethical promotion of morality and justice in organizational decision-making. It can also mean (1) the integration of a positive organizational norm, (2) the issuance of normatively appropriate conduct, (3) through an actor's personal behavior, and (4) positive functioning of social behavior, and (5) the promotion of conduct through social influence, leadership, and decision-making of followers. Ethical leadership means the norm of leadership, and more importantly, the ethical traits of the leader. These include honesty/integrity, trust, fairness, equity, and justice, and regard/respect for others. Some scholars present more prescriptively the most applicable and ideal 'ethical' and 'ethical' theory(s) as the character-based, teleological ethical frameworks virtue or ethical egoism. Defining Ethical Leadership These remaining attributes seem to become an open-ended exercise. They certainly incorporate motivation, the character/ integrity of an individual, relationships, and a style of leadership that is supportive, guiding, rewarding, and or inspirational. However, some of these attributes have been thoroughly discussed in ethical leadership literature.

When discussing ethical theories, most theories, and perspectives differ depending on the leaders' behavior, and, or actions, and thus, leaders, or, in this case, the perspectives, adopt one or more ethical theories when defining ethical leadership. As a result, identify ethical leadership in the perspectives of the four types of leaders. The first of which classifies or describes the ethical leadership as moral leaders with an extrinsic sense of purpose. This is, from the perspective of a moral philosopher, leading as a normative person, and, in this case, he has the paradigm of the most important things. Some, in this case, the proponents of the Kantian ethics, argue that from the perspective of ethics, the primary value of leadership is in the moral acts. From this perspective, a most of the authors argue

that, or the most simple answer from most authors in this cluster, an ethical leader is one who does the right thing underlined by a moral and ethical conscious, and would not want to be perceived to be ethical.

Principles and characteristics of ethical leadership

One of the emerging streams of leadership that has gained the interest of many academics and practitioners is ethical leadership. It has to do with a specific set of principles, value systems, and behavioral patterns that are standardized to achieve certain objectives in a given situation. Ethical leadership demonstrates several positive attributes such as honesty, integrity, accountability, and transparency. It enhances the levels of organizational performance by improving corporate governance systems and processes.

This segment analyzes the principles and attributes of ethical leadership as they pertain to corporate governance [1]. One of the fundamental principles of ethical leadership is honesty or truthfulness.

An honest leader instills the same high ethical practices in the organization, which encourages employees to behave the same way. Integrity is one core value critical to ethical leadership. This is understood as the non-variable and habitual practice of upholding the principles, values, and ethics of a culture, be it the organization, society, or the system of norms, customs, and values. Managers or corporate leaders with integrity have a positive influence on the employees, and as a result, such leaders are able to inspire employees to behave professionally inside and outside the organization. Managerial practices aimed at transforming the organization will positively shape the employees and instill values in them to minimize unethical behavior.

The importance of ethical leadership in corporate governance

Incorporating ethical leadership in corporate governance is gaining relevance. Investors and other parties are paying attention to how company leaders behave. To achieve good corporate governance, it is

important to embed the parameters of ethical leadership in the top management of a company.

Criminal behavior in business can be avoided through Ethical Leadership in Senior Management. This paper aims to understand what factors of Ethical Leadership can be integrated into the functions of Senior Management. The information presented in this paper assists Senior Management in integrating Ethical Leadership into Corporate Governance to bolster the firm's competitive advantage in Corporate Strategy, while also protecting the firm's Senior Management from personal financial loss through fines and loss of salary/benefits. The results indicate that Ethical Leadership in Corporate Governance creates positive outcomes, the most important being the rebuilding of trust with stakeholders, the likely increase of Corporate Shareholder's wealth through higher Stakeholder Value. Ethical Leadership promotes a culture of transparency and accountability, as opposed to the self-serving detrimental mismanagement that can, in turn, reduce the overall productivity of a country and increase the unemployment rate. Contrary to expectations, Ethical Leadership incurs a lower total cost than the negative commercial outcome that will be avoided. An Ethical approach to Business Management lowers Operational Risk while integrating Sustainable Business Practices.

As a result, operational risks for a company are minimized, and this may result in a positive trade-off for senior management in theory. Ethical leadership serves as a shut off, and as such, provides a corporate advantage. Certain senior managers are ethical and bring associated positive aspects and benefits. From a business perspective, ethical issues may prove detrimental to the firm's performance within a value chain.

Improved corporate image

There is a saying to the effect that, the image of a corporate leader is in the image of the corporate organization, meaning the corporate leader correlates to the corporate image. Some research in corporate reputation has demonstrated that corporate reputation is directly proportional to corporate performance. The corporate reputation is directly proportional

to the performance of the corporate entity. There is a relationship between social responsibility, leadership, and the image of the corporate entity. The leader is in the pivotal position to influence corporate social responsibility and the stakeholders, and consequently improve corporate performance. Furthermore, because of a reputation for business ethics, which aligns with stakeholder theory, proving ethical commitment, and considering public interest, attributed to the leader, describes an organization as being responsible to its stakeholders, and for this reason, the corporate reputation is of great importance. Justifying the reputation as an organizational virtue, reputation management is, from the perspective of organizational effectiveness, the most important means of influencing the success of the organization. Stakeholders with an emotional assumed relationship, most frequently customers, and other parties, including investors, consider organizational reputation when deciding, thus, the organization's ethical leadership is a precursor to solidifying and sustaining stakeholder and other parties, predominantly customers, emotional assumed relationships. Moreover, organizational reputation has been demonstrated to contribute most significantly to the value of the firm and to the competitiveness of the firm in the market. Furthermore, several studies have noted that better corporate reputation is associated with the quality of products and services the organization provides, as well as the associated brand. Moreover, several studies drawing a link between corporate governance and superior organizational performance have noted the effects of positive stakeholder perception of corporate governance on organizational performance and the attainment of superior outcomes.

Ethical leadership promotes positive behaviors and supportive relationships, builds trust and respect, facilitates individual development, and leads to improved organizational performance.

Increased employee morale and engagement

Ethical leadership enhances corporate governance by creating a positive workplace where employees can be fully productive. Leaders create a

workplace where employees can be themselves and are not driven to violate their personal ethics. This can lead to greater employee satisfaction and engagement, and can create a positive impact for the organization. This style of leadership can further enhance corporate governance. Ethical leaders know that true stewardship is active engagement and productivity. A recent survey showed that an overwhelming majority of respondents (99.7%) believe that principled managers are the only type of managers that can lead their organizations to sustainable success. With the practiced of Integrative Servant Leadership, organizations are able to pay equal attention to human welfare and organizational resources.

People's most valuable and least utilized sense, and in value and use is the most antagonistic, is in the midst of rapid and unpredictable shifts like the 4th Industrial Revolution. Modeling the right behavior, even in the midst of chaos, helps leaders mitigate the anxiety and increase the loyalty of their followers. Ethical leaders serve as role models, and as such, inspire their followers resulting in reduced turnover. This phenomenon attributed to ethical leadership is employee engagement, and in the case of losing the social conscience of the business, is a company focused on increasing employee commitment to increase value to the shareholders and reducing costs to society. Profit maximization is an unreasonable goal, but a measure or reflection of good business practice [14].

Barriers to ethical leadership in corporate governance

One of the main contradictions in ethical leadership is the likely potential of this kind of leadership in governance. More specifically, ethical leadership has the potential to transform corporate governance, offers multiple advantages, and increases the accountability of corporate governance. In the literature, there is a convergence of attitudes and functions, challenges, and barriers to ethical leadership. These can stem from disparate competing interests, which also include values, beliefs, and a whole range of expectations, thus, creating barriers to applying an ethical framework in corporate governance. From a wider perspective, one could affirm that there is a gap in literature focusing on ethical leadership

as responsible leadership, given that ethical leadership is an 'incomplete' theory [15].

Some potential issues leaders may encounter include the fact that due to ethical behavior, management might have challenges, some negative outcomes, when attempting to make the management strategies operational. Ethical managers will have to contend with types of resistance to change. This may or may not be the primary obstacle, not due to the fear of the unknown or counter dangerous value, but due to the individual value of the opposing parties. Last, leaders must take seriously the leadership role and the ethical dilemma tied to some of the choices that they make. For corporate managers, the implications of the role that they play, or the involvement that they have, in the setting of the corporate policies, the regulation of the corporate policies, the executing of the corporate policies, and the whole complying with the guide of ethical leadership coupled with the corporate policies, is of great importance to the stakeholders. The engagement of such professionals may diminish such challenges and structure, supervise, and allocate a high degree of positive ethical tone especially to the upper and line managers.

Case studies and examples of successful ethical leadership in corporate governance positioning

There are real-life examples of firms practicing high corporate social responsibility (CSR) and ethical leadership. One of the most distinguished examples of ethical leadership is Nokia, which, at one point, commanded 36% of the global smartphone market. Nokia had, and, in fact, still has, the economic clout to continue leveraging its position in the market. Unfortunately, however, due to the company's strategic decision to stay focused on the economic bottom line, Nokia sustained an injury to its corporate reputation. In 2013, Nokia sharpened its corporate social responsibility and focused on transparency and risk management.

Broadridge Financial Solutions, a U.S. company, has reached an equally positive example of ethical leadership and its influence in corporate governance. L. McDonough (2011) notes that the company, through positive and continuous implementation of its ethical policy and code of conduct of its employees, received a nomination to be one of the 100 best corporate citizens in the Corporate Responsibility Magazine. In recent years, Broadridge has been one of the dominant players in the market of stockholder communications and business process outsourcing in the financial services sector. When the European division of SCA became operational in February 2011, it also became SCA and one united company. This is an example of corporate social responsibility and ethical leadership that came to fruition.

The name change completed a three-year process of merging the businesses to operate under one name. Ethical leadership impacts all stakeholders, especially employees.

Conclusion

Ethical leadership is a core component of effective corporate governance as it provides a framework for the organization's decision-making and behavior. When businesses adopt an ethical approach to leadership, they win the trust of their stakeholders, build a positive reputation, and attain long-term success. While the implementation of ethical leadership is challenging, the positive impacts such as improvement of employee morale, increase of corporate productivity, and enhancement of engagement far outweigh the challenges. The positive governance contributions of ethical leadership evidenced in the case studies of Nokia and Broadridge Financial Solutions are outcomes that most businesses would wish to attain. In today's corporate world, ethical leadership is a necessity and not an option.

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