

**Journal of  
Leadership, Accountability and Ethics**

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# Journal of Leadership, Accountability and Ethics

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Focus of the articles should be on applications and implications of management, leadership, ethics, and governance. Theoretical articles are welcome as long as there is an applied nature, which is in keeping with the North American Business Press mandate.

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- Acknowledge and disseminate achievement in best business practice and innovative approaches to management, leadership and governance
- Provide an additional outlet for scholars and experts to contribute their ongoing work in the area of management, leadership and ethics

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Include a title page with manuscript which includes the full names, affiliations, address, phone, fax, and e-mail addresses of all authors and identifies one person as the Primary Contact. Put the submission date on the bottom of the title page. On a separate sheet, include the title and

an abstract of 100 words or less. Do not include authors' names on this sheet. A final page, "About the authors," should include a brief biographical sketch of 100 words or less on each author. Include current place of employment and degrees held.

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## **A Framework for Leader Effectiveness in Virtual Teams**

**Gabi Eissa**

**Oklahoma State University**

**Corey Fox**

**Oklahoma State University**

**Brian D. Webster**

**Oklahoma State University**

**Joongseo Kim**

**Oklahoma State University**

*Due to technological advancements, organizations have more tools for employee development at their disposal. Technology has been utilized by organizations in training and development programs for leaders to enhance their skills and abilities. We argue that the success of these programs is due in part to individual differences and that an individual's success in these programs has subsequent influence over malleable individual characteristics. We integrate the literature on individual differences, training and development in a virtual setting, and leadership effectiveness in virtual teams to propose a framework on how these variables interact to achieve success.*

### **INTRODUCTION**

A vast amount of research in the management literature has recognized the importance of leadership at various levels in the organization and the impact that leadership has on an organization's success (Bono & Judge, 2004; Hogan & Kaiser, 2005; Koene, Vogelaar, & Soeters, 2002; Smith, Carson, & Alexander, 1984; Thomas, 1988). An important area of research in this stream has focused on identifying key personality traits as well as behaviors of successful leaders. Even though some consistencies exist in regards to various traits studies, some traits and constructs appear more frequent than others (Bono & Judge, 2004). Another important, but completely separate, stream of research in the management literature has focused on how technology plays a role in organizational effectiveness and functioning (e.g., Zaccaro & Bader, 2003; Zigurs, 2003; Hertel, Geister & Konradt, 2005; Cascio & Shurygailo, 2003).

Despite the popularity of research on leadership and the growing use of online information and business technology, leadership training and development using a virtual environment, has received scant attention in the leadership literature (Fiedler, 1996). Particularly, little evidence exists that examines leaders' individual differences and the influence of these differences on a leader's performance in training and development utilizing virtual programs. Furthermore, the subsequent impact of this virtual leadership

training on a leader's effectiveness has also been understudied (Kayworth & Leidner, 2001; Ziguers, 2003). As such, the purpose of this study is to investigate (1) the relationship between a leader's individual differences (viz., openness to experience, conscientiousness, neuroticism) and their performance in virtual training and development programs, (2) how virtual training and development programs may influence certain leaders' malleable dispositions (psychological capital in particular), and (3) the impact of leaders' dispositions, as well as their success in a virtual training and development environment, on leadership effectiveness and success in a virtual team.

### **Virtual Leadership Training and Development**

In order to be an effective leader, leaders need to obtain the necessary skills required to perform their jobs. One way they can do this is to participate in training and development programs. Avolio and colleagues define leadership training and development as any program that aims to enhance "knowledge, skills, ability, motivation, and/or perceived self-concept to enable them to exercise positive influence in the domain of leadership" (Avolio, et. al., 2009, p. 769). The authors argue that training and development has a significant positive effect on various outcomes, including job performance, across various levels of analysis in organizations.

With the advent of new technologies, organizations can integrate technology and traditional organizational activities such as training and development. Virtual training is a relatively new phenomenon in management and is important because it offers organizations attractive benefits versus more traditional methods of training and development. We define virtual training & development as a training and development program administered through an electronic medium. Electronic, or virtual training, has become increasingly popular for organizations since it cuts the costs associated with training seminars (i.e. travel and lodging). In addition, virtual training saves on time and increases accessibility (Luthans, Avey, & Patera, 2008) as well as allows the organization to have some flexibility with respect to training schedules. With the organization able to offer training and development access over the internet or through unique computer programs, less time and financial resources are spent traveling to traditional seminars and members at all levels of the organization can have access to the training. Furthermore, several studies have discovered training in a virtual environment and a traditional training environment leads to similar real world performance (Rose, Attree, Brooks, Parslow, & Penn, 2000; Rose, Attree, Brooks, Parslow, Penn, Ambihapahan, 1998; Piccoli, Ahmad, Ives, 2001). As a result of the effectiveness and minimal resources required, virtual training has become of great importance to practitioners and academics alike.

### **Personality and Success in a Virtual Training and Development Program**

In general, leaders come in a variety of dispositional shapes and sizes and we argue in this paper that these dispositions play an important role in the success of the leader in a virtual training and development program. Indeed, research has demonstrated a relationship between personality and both job performance and training proficiency (Barrick & Mount, 1991); however no such studies, to our knowledge, have investigated whether these relationships are consistent when the *context* of the training program changes. Therefore, we explore leaders' individual differences related to enduring personality traits such as those discussed in terms of the Big Five Model (Goldberg, 1990) and how these traits influence a leader's success in a virtual training environment. Additionally, we also examine how the success (or lack thereof) influences more malleable individual characteristics like a leader's psychological capital (hereafter referred to as PsyCap). We propose that more malleable individual differences will influence how effective a leader can be in a virtual team environment. We refer to leadership effectiveness with respect to how well a leader performs as *the* leader of a virtual team in accomplishing a particular task, as well as how the team members perceive their leaders to perform within their own team. These two factors represent a leader's effectiveness, which is important for the organization because leader effectiveness may relate to outcomes such as job satisfaction and citizenship behaviors of team members (Judge & Piccolo, 2004; Purvanova, Bono & Dzieweczynski, 2006).

Our research intends to make several contributions to the literature of leadership. First, this study is one of the first, to our knowledge, to argue that leaders' individual differences impact leader performance in virtual training and development. Second, we examine the importance of leader success in a virtual training and development environment with respect to malleable leader individual differences. Third, we explore the dynamics of leaders' individual differences (via PsyCap) and its effect on the effectiveness of the leader in a virtual context.

Figure 1 (See Appendix) represents the theoretical framework developed in this study. The subsequent sections provide explanations and the supporting arguments and research explaining each component of our framework.

## **THEORY AND PROPOSITIONS**

### **Personality and Leadership Training and Development**

Although a vast amount of research has been dedicated to investigate the relationships between personality traits, such as the Big Five Model (Goldberg, 1990) and leadership, we know very little about how these personality traits impact a leader's success in virtual leadership training and development programs. While previous research has suggested there is a link between personality and performance in more traditional training and development programs (Barrick & Mount, 1991), no work has attempted to translate this into a virtual context. The Big Five personality dimensions include Extraversion, Agreeableness, Neuroticism, Conscientiousness, and Openness to experience. Here, we argue that several of these Big Five personality traits are antecedents to how leaders perform in virtual leadership training and development, which we argue affects leadership effectiveness. In particular, we focus on three personality traits which we believe are most likely to influence success in a virtual training environment, namely openness to experience, conscientiousness, and neuroticism. Although, extraversion and agreeableness have been shown to contribute to leader effectiveness (DeRue, Nahrgang, Wellman & Humphrey, 2011), we exclude them from our framework because they are dimensions that invoke interpersonal, relational, emotional attributes and are unlikely to be as affective in a virtual team setting as they are in a traditional, face-to-face training environment. Furthermore, extraversion has been suggested to contribute to effectiveness from an individual standpoint; however has minimal influence in a group setting (DeRue et al 2011). This suggests that extraversion is unlikely to contribute to leader effectiveness in a virtual group environment.

#### *Openness to Experience*

Openness to experience represents individuals that are characterized as being nonconforming, imaginative, unconventional, creative, and adapt well to change. Furthermore, individuals who are characterized by this type of personality are more likely to possess divergent thinking (McCrae, 1990; Judge, Heller & Mount, 2002). Barrick and Mount (1991) suggest that openness to experience is related to training proficiency. They explain that individuals who are high in this personality dimension have a greater tendency to adapt to new learning experiences versus those who are low in such dimension.

Numerous other researchers have shown that openness to experience is positively related to the learning process and experience itself (e.g., Ryman & Biersner, 1975; Goldstein, 1986; Barrick & Mount, 1991). Sanders and Vanouzas (1983) suggest the attitudes and expectations of individuals are highly related to the individuals' tendency to partake in a new learning experience. Barrick and Mount argue that "it is possible that openness to experience is actually measuring the ability to learn as well as motivation to learn" (1991, p. 20). Since virtual leadership training is a relatively new and different style of training and development, we believe that individuals who are open to experiencing learning in new environments are more likely to embrace training and development and hence will perform better than those that are not as open to new experiences. Therefore, we propose the following:

*Proposition 1: Leader openness to experience is positively related to the performance of leaders in virtual leadership training and development programs.*

### *Conscientiousness*

Conscientiousness represents individuals that are characterized as being persistent organized, dependable, purposeful, disciplined, and achievement-oriented. Furthermore, individuals who are characterized by this type of personality are more likely to possess high tendencies for job involvement, which indicates that these individuals are more likely to obtain formal and informal work rewards, including promotions, recognition, and a strong sense of personal accomplishment (Judge et al., 2002). Judge, Bono, Ilies, and Gerhardt (2002) have shown that Conscientiousness is highly related to the effectiveness of the leader. Kirkpatrick and Locke suggest that “leaders must be tirelessly persistent in their activities and follow through with their programs” (1991, p. 51).

A variety of research has demonstrated that conscientiousness is positively related to job performance (e.g., Barrick & Mount, 1991). Also, research has demonstrated that Conscientiousness is positively related to cooperation in teams (e.g., LePine & Van Dyne, 2001). Perhaps one explanation for these positive relationships is that these individuals pay more attention to work details (Barrick & Mount, 1991). Indeed, individuals who are high in Conscientiousness are less likely to shirk on work responsibilities (Bono & Judge, 2004), thus, they are more willing to participate in work situations that may enhance their work performance—which may include engaging in work learning experiences such as virtual training sessions. Virtual training and development programs require the self-discipline and hard work that Conscientiousness represents, in order to get any meaningful return from the programs. Often times virtual training and development programs require the individual to take an active role in their own learning, whereas in traditional training environments other individuals (e.g. the boss or the trainers) may require the individual to do the work. Based on this, we propose the following:

*Proposition 2: Leader conscientiousness is positively related to the performance of leaders in virtual leadership training and development programs.*

### *Neuroticism*

Neuroticism represents individuals that are characterized as being low in emotional stability experience negative affectivity (i.e. feelings such as anxiety, insecurity, and hostility). Furthermore, individuals who are characterized by this type of personality lack self-esteem and self-confidence (McCrae & Costa, 1991). Barrick and Mount (1991) argue that individuals who score high in Neuroticism are less likely to engage in learning experiences. One potential explanation to this notion is that since these individuals are pessimistic and negative in nature, they are more likely to not believe in their ability to complete certain tasks.

A large portion of research has demonstrated that Neuroticism is negatively related to different leadership styles (e.g., Judge & Bono, 2000). Judge et al. (2002) argue that these individuals are more likely to experience negative events as opposed to those who are not as neurotic. The reason behind this, they explain, is that these individuals put themselves into situations that promote mostly negative emotions, thus they are less likely to engage in situations that may help them overcome such affect. We believe that neurotic individuals might be more likely to think they cannot learn or gain from training they are not familiar with, such as that in a virtual context. They also might be more likely to get frustrated easily with technology and hence disengage from new learning experiences. Based on this, we propose the following:

*Proposition 3: Leader neuroticism is negatively related to the performance of leaders in virtual leadership training and development programs.*

### **Training and Development Programs and Other Individual Differences**

Essentially, leader effectiveness can be thought of as the ability to get a team to accomplish a shared goal or objective (Judge et al., 2002). Leader effectiveness depends not only on abilities but also is affected by individual differences and how well those differences, amongst other things, match with the

situation facing the leader (Fiedler, 1996). Thus far, we have proposed that certain distinct personality traits (viz., Openness to experience, Conscientiousness, and Neuroticism) are highly related to the performance of leaders in a training and development programs. Next, we suggest that the performance of leaders who have taken part in training, will affect leader's Psychological Capital (PsyCap).

### *PsyCap*

PsyCap is a relatively new construct embedded in the positive organizational behavior literature encompassing four components—self-efficacy, hope, optimism, and resilience. PsyCap is important for leaders and teams since it is an individual capacity which has the potential to provide competitive advantage (Luthans & Youssef, 2004; Luthans, Youssef, & Avolio, 2007). A distinguishing characteristic of PsyCap is that it is state-like and not as enduring an attribute as personality (i.e. the Big Five). Thus, PsyCap is an element of an individual that can be developed and changed over time (Luthans, 2002). Although PsyCap has been shown to be correlated with certain aspects of personality, it has also been shown to explain unique variance in organizational outcomes (Avey, Luthans, & Youssef, 2010).

PsyCap includes self-efficacy, hope, optimism, and resilience. *Self-efficacy* is an individual's confidence in their ability to complete a specified task. Efficacy is strongly influenced by previous successes and is domain specific. Self-efficacious individuals set high goals for themselves, thrive on challenges, are highly self-motivated, invest effort towards their goals, and persevere (Luthans et al., 2007). *Hope* is conceptualized as the cognitive ability to set realistic, yet challenging, goals and then developing paths and controlling behavior in order to attain these goals. Hopeful leaders can motivate subordinates through their energy levels and determination and are able to explain their actions in a trust building manner, which in turn encourages buy in from subordinates (Luthans et al., 2007). *Optimism* is the expectation of positive and desirable future outcomes. However, within the construct of PsyCap, optimism must be flexible and realistic. An optimistic individual attributes positive outcomes to personal abilities and factors which they have control of and view negative outcomes as caused by external forces (Luthans et al., 2007). Finally, *Resilience* is the ability to come back from adversity or failure or to push forward in the face of difficulty (Luthans et al., 2007). In an increasingly competitive corporate environment, resilient leaders are able to set themselves apart as consistent performers and achievers by always pushing ahead with new solutions when times are difficult. Research on two components of PsyCap, self-efficacy and optimism, found that these qualities were positively related to leadership ratings by peers. Leadership efficacy and optimism were also found to be strongly related to performance capability (Chemers, Watson, & May, 2000). Luthans and colleagues (2007) found that PsyCap was positively related to both performance and employee satisfaction.

We go one step further and argue that virtual training and development and PsyCap are highly related. Sogunro (1997) found evidence that after training sessions, participants perceived that their leadership capabilities had increased and that there was a resulting change in leader's attitudes and efficacy. Similarly, training has been shown to increase an individual's self-efficacy towards that specific task (Aguinis & Kraiger, 2009). We argue that because perceived skills have been shown to increase after training sessions, leaders that partake in training programs will have greater competence (self-efficacy) in their leadership skills. Furthermore, when leaders are more efficacious, they are naturally more optimistic in terms of their future performance. We also believe that greater optimism will result in a more directed effort to design paths to achieve goals (hope) even in the face of challenges (resiliency). Taken together, we propose the following:

*Proposition 4: Performance in virtual leadership training and development will be positively related to leader PsyCap.*

## PsyCap and Leadership Effectiveness in Virtual Teams

### *Virtual Teams*

The unprecedented technological advancements in the business world have made virtual teams a viable, and sometimes preferred, option for numerous organizations as they look to expand beyond their traditional boundaries and access a vast pool of previously unattainable resources (Avolio & Kahai, 2003; Bell & Kozlowski, 2002; Cascio & Shurygailo, 2003; Ebrahim, Ahmed, & Taha, 2009; Martins, Gilson, & Maynard, 2004; Powell, Piccoli, & Ives, 2004). A virtual team is a collection of geographically dispersed individuals working interdependently on shared tasks across organizational boundaries, linked together by information technology (Powell et al., 2004). Virtual teams are often formed on an “as needed basis” to perform a specific task and once the team accomplishes its task, the team is dissolved.

The previous definition makes salient the important notion that virtual teams are different than traditional work teams. Indeed, recent reviews find two features, consistently mentioned, which differentiate virtual teams from traditional face-to-face teams. Those two features are spatial distance between members and the medium of communication used for team interaction (Bell & Kozlowski, 2002; Ebrahim et al., 2009). These issues create challenges for virtual leaders such as developing and shaping team processes, monitoring and managing team performance (Bell & Kozlowski, 2002), building trust and team cohesion as well as team communication (Ebrahim et al., 2009; Zaccaro & Bader, 2003), and establishing norms, practices, and boundaries (Cascio & Shurygailo, 2003).

Since virtual teams present several unique challenges not faced in traditional work teams (Bell & Kozlowski, 2002; Zigurs, 2003), they require a different skill set from leaders to ensure their ultimate effectiveness (Cascio & Shurygailo, 2003). While a wide range of prescriptions are offered for the challenges virtual team leaders face, three in particular frequently appear. First, leaders need to be able to craft communication guidelines in order for the team to effectively transmit their intentions through technology. This involves frequent interactions with team members in order to achieve the following functions: clarify team member roles, specify appropriate behaviors, structure work processes, provide feedback, and enunciate direction (Avolio, & Kahai, 2003; Bell & Kozlowski, 2002; Hertel, Geister, & Konradt, 2005; Zaccaro & Bader, 2003; Zigurs, 2003). Second, leaders of virtual teams need to motivate team members toward the team goal through non face-to-face interaction (Ebrahim et al., 2009; Hertel et al., 2005; Zaccaro & Bader, 2003). Finally, leaders need to build team cohesion and trust to ensure the team’s effectiveness (Cascio & Shurygailo, 2003; Ebrahim et al., 2009; Powell et al., 2004).

Prior empirical research has found that the core elements of PsyCap have been associated with positive affect (Barsade & Gibson, 2007). Russ and Isen (1999) provide evidence that positive affect has been shown to lead to creative problem solving. Also, optimistic individuals are more likely to respond to challenging situations by adapting (Carver, Scheier, Miller, & Fulford, 2009). It has also been shown that a hopeful individual is concerned with others achieving their goals and they attempt to form meaningful connections between others by building trust so as to achieve a desired outcome (Rand & Cheavens, 2009).

As discussed previously in this paper, virtual leadership encompasses many unique challenges; specifically, communication and cohesion building challenges. Because these challenges are different than the challenges traditional teams face, traditional methods of overcoming such challenges will not be sufficient. We argue that these problems can be solved with creative solutions implemented by individuals that exhibit the values which are inherent in PsyCap. Therefore we propose the following:

*Proposition 5: Leader’s PsyCap will be positively related to their effectiveness in a virtual team environment.*

To complete our model, one might expect that training and development may in fact increase effectiveness through new experiences and the learning processes. In our case, when leaders engage in virtual training and development, they are expected to enhance and boost the performance of their teams as well as their own performance. As previously stated, virtual training and development provides

numerous outstanding benefits compared to traditional training and development methods. Thus, in addition to the impact that virtual training and development has on leadership and team effectiveness through PsyCap, we also argue that virtual training and development may have a *direct* effect on virtual leadership and team effective. Therefore, we propose the following:

*Proposition 6: Performance in virtual leadership training and development will be positively related to virtual leadership and team effectiveness.*

*Proposition 7: PsyCap will mediate the relationship between performance in virtual leadership training and development and virtual leadership and team effectiveness.*

## **GENERAL DISCUSSION**

### **Theoretical and Practical Implications**

Over the past few years, research in various fields and disciplines has dedicated considerable time and effort to the investigation of leadership in terms of certain traits, attitudes, and behavior. With advances in technology, research in management has seen the birth of a new phenomenon which focuses on studying how technology impacts organizations. Today, studying an organization that operates in a virtual context will be incomplete without knowledge of how its leaders behave and interact with team members in order to guarantee an organization's success.

The purpose of this study was to develop a model that investigates organizations that utilize technology in order to improve their organization. Particularly, we looked at relationships between leaders' personality traits and their impact on the leader's performance in virtual training and development. Furthermore, we explored how virtual training and development influences leaders' malleable dispositions as well as the effectiveness of their leadership in teams.

Given that virtual organizations and teams are becoming increasingly popular with continuous technological improvements and advancements, we believe research on virtual teams and virtual leadership training programs deserves more attention. This research, particularly, our theoretical model, may provide initial steps into expanding and developing a new research stream aimed at studying how technology in the form of virtual training can significantly impact organizations and the members that operate within them.

From a practical standpoint, our research has several implications. First, organizations may target certain individuals (i.e. those that are high in openness to experience, conscientiousness, and low in neuroticism) to participate in cost effective virtual leadership training. This not only will save organizations time and money in providing training to leaders, but will also increase the probability that the leaders participating in training will learn from their training experiences. This may have implications for future performance as well. Second, since research has shown that PsyCap can be developed (Luthans, Avey, Avolio, Norman, & Combs, 2006), we believe that organizations can be confident when implementing programs that aim to develop employees' PsyCap that future performance will benefit from such programs.

### **Future Directions**

As stated above, a natural next step for advancing this study should involve an empirical examination of the proposed framework and the relationships addressed. Although each of the variables in our model has been demonstrated to have an impact on traditional organizations, research that takes these variables to a different context is still in its infancy. We suggest that additional research should build on our model by adding more variables, in terms of antecedents, mediators, or moderators. Future research should also benefit from understanding how these variables influence each other over time. Consequently, it is rather important to not only explore how effectively and efficiently each of these variables influences organizational outcomes, but also how effectively and efficiently they function together.

## CONCLUSION

Our research looks to add to the literature on leadership training and development and the effectiveness of leaders in virtual teams. We have argued that individual personality characteristics play an important role in the success leaders have in training and development programs and, consequently, the success of leaders in a virtual environment. We believe that the popularity of virtual training programs, as well as boundary-less organizations, makes a virtual context an increasingly attractive context for future management research and, hence, have proposed a theoretical model to help with research in this area. By undertaking our research utilizing a virtual context, we hope to encourage additional research in this new and increasingly popular domain.

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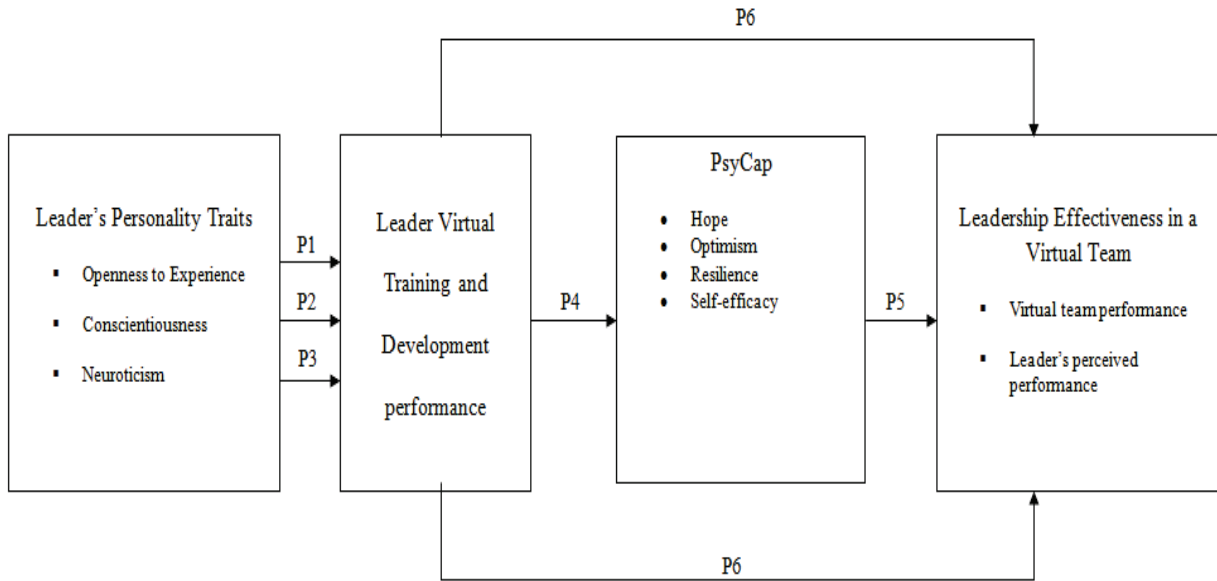
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APPENDIX

FIGURE 1



# **How Far Can I Trust You? The Impact of Distance and Cultural Values on Leaders' Trustworthiness**

**Alejandro Torres**  
**Claremont Graduate University**

**Michelle Bligh**  
**Claremont Graduate University**

*Employees' level of trust in leaders has long been deemed an important key to successful organizational dynamics and performance. Utilizing survey data, the current study investigates differences in levels of trust between one's immediate manager and the organization's top leadership, the impact of individualism/collectivism on these levels of trust, and the influence of leader-follower distance on leadership trust. Results revealed higher levels of trust for direct leaders than organizational leaders among the U.S. sample. While individualism/collectivism was not found to significantly affect levels of leadership trust, perceptions of less leadership distance had a positive impact on levels of leadership trust.*

## **INTRODUCTION**

Globalization, multinational organizations, and joint ventures create work situations in which leaders and followers must increasingly collaborate with widely dispersed team members. As technology mitigates the barriers of time and space, employees are increasingly asked to work with and for individuals they have never met face to face, with different cultural, social, and national backgrounds. These circumstances have highlighted the importance of interpersonal trust as the "glue" that binds disperse teams together and facilitates global collaboration.

An increasing amount of research in organizations has examined the concept of trust (Dirks & Ferrin, 2002; Kramer & Isen, 1994). Rousseau, Sitkin, Burt, and Camerer (1998) define trust as "a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behavior of another" (p. 395). Trust involves both cognitive and affective processes, and both of these components facilitate prosocial interactions across a variety of task-oriented and interpersonal settings (Dirks & Ferrin, 2002). Considerable research has demonstrated the robust impact of trust on positive attitudinal and behavioral outcomes across a variety of domains (Colquitt, Scott, & LePine, 2007; Hosmer, 1995; House & Aditya, 1997; McKnight, Cummings, & Chervany, 1998).

More specifically, perceptions of a leader's trustworthiness are an important aspect of successful managerial environments (Hogan, Curphy, & Hogan, 1994). Trust in one's leader has been found to be strongly associated with organizational success, job satisfaction, cooperation, and performance (Barney & Hanson, 1994; Bennis, 1999; Lindsfold, 1978; Sundstrom, De Meuse, & Futrell, 1990; Watson & Adler, 1984). Trust also is widely recognized as a key element of effective leadership, and features prominently

in theories of both transformational and charismatic leadership (Bass, 1985; 1990; Kirkpatrick & Locke, 1996; Podsakoff, MacKenzie, Moorman, & Fetter, 1990). Fostering an organizational culture of trust is important with regard to employer-employee interactions, communication, job satisfaction, commitment to the organization, and other prosocial elements of the corporate environment (Dirks & Ferrin, 2002; Greenleaf, 1996; Gulati, 1995; Luke, 1998; Jones & George, 1998; Owen, 1996).

However, Crouch and Yetton (1988) maintain that levels of trust also tend to vary markedly, particularly between different leader-follower relationships. In addition, more recent findings support the notion that trust is not always necessarily reciprocated equally (Schoorman, Mayer, & Davis, 2007). While growing empirical evidence acknowledges trust as a critical mechanism in fostering positive leadership perceptions, researchers have only begun to examine leader-follower trust relationships within broader organizational contexts. As a result, developing a better understanding of trust across different hierarchical levels or within similar dyadic worker relationships is warranted (Brower, Schoorman, & Tan, 2000).

Despite the obvious importance of developing trusting relationships between leaders and followers, many factors may deter its development. As noted by Fairholm and Fairholm (2000), common barriers that hinder trust in an organization include poor accountability, prior accounts of poor trust, weak corporate authority or leadership, and the structure of the organization. These authors also mention the impact external society can have on trust development. Recent scandals both nationally and internationally have also eroded confidence in leaders, including Bernie Madoff and the Security and Exchange Commission (Chew, 2009), Enron, Merrill Lynch, HealthSouth, and Arthur Andersen (Cohan, 2002). In many of these cases, leaders were blamed, leading to a crisis of trust in top leaders.

As the pressures of globalization strengthen, leaders find themselves operating across both time zones and cultures. For this reason, there is a strong need for more research on how leader-follower trust is developed and maintained (Javenpaa, 1999). In addition, it is important to understand how differences in cultural values, such as individualism-collectivism, potentially interact with perceptions of leader-follower distance to impact trust in leaders.

### **Leader-Follower Distance**

Recent changes brought about by globalization suggest that an overlooked factor in understanding leader-follower trust includes the notion of 'distance' (Antonakis & Atwater, 2002; Bogardus, 1927; Henttonen & Blomqvist, 2005). Leadership distance has emerged as an important factor in studying organizational cultures due to structural shifts from more traditional collocated workplace environments to increased geographic dispersion among companies, as well as increased technology-based communication and globalization throughout organizations (Avolio, 2000; Napier & Ferris, 1993; Rosen, Furst & Blackburn, 2006; Weisband, 2008). The concept of distance between leaders and their followers has recently been a focal point of many leadership and organizational theories (Bligh & Riggio, in press; Hofstede, 1984; Meindl, 1995).

The dynamics between leaders and followers can vary for many reasons including number of followers, level of leadership, and types of work being conducted. Previous research strongly supports the notion that many leaders are positioned to directly influence the efforts and productivity of their followers (Cascio, 1999; Lowe, Kroeck, & Sivasubramaniam, 1996; Northouse, 2001). Although some findings suggest that leadership distance can be beneficial to an organization's culture by reducing "micromanagement" issues and other leadership problems (Howell, Neufeld, & Avolio, 2005), commonly reported negative ramifications of physically distant leaders can include poor relationship development, schedule or management coordination difficulties, lower worker performance, or being perceived by followers as uninvolved or less knowledgeable (Bass, 1998; Cummings, 2008; Erskine, 2007; Yagil, 1998).

Antonakis and Atwater (2002) propose a theory of leadership distance that describes three independent dimensions as a result of a thorough review of proposed leadership distance theories. The resulting dimensions were strongly influenced by the leadership distance theory originally proposed by Napier and Ferris (1993). These dimensions include physical distance, perceived social distance, and

perceived interaction frequency. Antonakis and Atwater (2002) define social distance as “perceived differences in status, rank, authority, social standing, and power, which affect the degree of intimacy and social contact that develop between followers and their leader” (p. 682). Individuals who have more frequent interactions with their leader are likely to perceive having a “closer” relationship with their leader. Similarly, Shamir (1995) examined the effects of social distance on charisma and found that charismatic leadership may differ depending on whether the leader is either socially “close”(direct relationship) or “distant” (indirect relationship). His findings suggest that social distance affects the way trust in a leader develops. Shamir goes on to state that in socially “distant” situations, followers look towards their leaders’ past accomplishments and future goals in developing trust. In contrast, followers in socially “close” relationships look for information concerning honesty, fairness, openness, and a sense of humor.

Although references to the importance of leader-follower distance can be found throughout the current literature, it is unclear how leadership distance impacts leader-follower trust. Hoyt & Blascovich (2003) conducted a study on leadership style, trust, performance, job satisfaction, and physical distance, and found that physical distance did not have a relationship with the other variables. DeRosa, Hatula, Kock, & D’Arcy (2004) also address the need for further research on the links between trust and physical distance, particularly in relation to virtual teams. Blau’s early work suggests that social exchange – but not economic exchange – can bring about feelings of obligation and trust (Blau, 1964). However, there is little research on how the various aspects of leadership distance potentially impact the positive outcomes of social exchange such as reciprocity and trust. A meta-analysis conducted by Dirks and Ferrin (2002) revealed an absence of studies measuring trust towards organizational and immediate leadership within a single study. Results from their study demonstrated a stronger relationship between trust in immediate leadership and outcomes such as organizational commitment, job satisfaction, and job performance than the relationships with organizational leadership.

Antonakis and Atwater (2002) state that all three dimensions of distance (social distance, physical distance, and interaction frequency) are independent; therefore, a comparison will be conducted between those leaders who are “close” on all three dimensions with those who are considered “distant” on all three dimensions.

*Hypothesis 1: Employees will display higher levels of trust for direct leaders than for organizational leaders.*

*Hypothesis 2: The more ‘distant’ a leader is perceived to be, the less their employees will trust them.*

### **Exploring Trust Cross-Culturally: Individualism-Collectivism**

Despite an increase of studies researching organizational trust and leadership, relatively few have examined organizational trust cross-culturally. Collectivistic cultures have been described as tightly knit societies in which individuals protect the interests of the group, as a whole, over their own interests (Hofstede, 1984). Doney, Cannon, and Mullen (1998) found that collectivistic cultures exhibit high levels of trust and benevolence, while individualistic cultures tend to have weaker relationships and lower levels of trust. Research on trustworthiness in organizations indicates that certain collectivistic cultures exhibit greater emphasis on fostering relationship development than individualistic cultures (Chen, Chen, & Meindl, 1998). In a unique study, Huff and Kelley (2003) found that collectivistic nations tend to have lower propensities to trust and higher propensities to distrust than more individualistic societies.

This study also found that when compared to individualistic nations, collectivistic countries exhibit higher levels of trust for those within their organization than for those seen as external to the organization, such as partners or suppliers. Huff and Kelley (2003) maintain collectivistic nations trust members of their in-group more than out-group members. Other studies similarly posit that employees in collectivistic cultures tend to have difficulty interacting with out-groups and display higher levels of avoidance behaviors (Wakins & Liu, 1996). Yamagishi, Cook, and Watabe (1998) suggest that as a result of this in-group bias, employees in collectivistic cultures may struggle to develop trust outside of pre-existing

cultural boundaries.

*Hypothesis 3: Employees with higher levels of collectivism will exhibit less trust for leaders than employees with lower levels of collectivism.*

In addition, both differences in cultural values and perceptions of distance likely have important implications for a variety of other variables critical to successful organizational functions, yet little to no research has explored the role of trust as it relates to leadership distance. Thus, further research is warranted to better understand how these constructs impact the development of trusting leader-follower relationships across individualistic and collectivistic settings.

*Hypothesis 4: The difference in trust towards an organizational leader and a direct leader will be greater for those with higher levels of collectivism than for those with lower levels of collectivism.*

## **METHOD**

### **Participants**

To maximize the variance in individualism and collectivism, participants were sampled from two different locations. One sample was collected in Singapore from students attending an MBA program at the Singapore Institute of Management. A snowball sampling method was utilized to recruit additional participants among these individuals. A comparable sample was collected in the United States in the Southern California region from students at a small private university.

The sample yielded a total of 241 cases (U.S.  $n = 130$ ; Singapore  $n = 111$ ). Mean demographic variables reported among the U.S. and Singaporean samples, respectively, included number of years employed with the organization ( $M = 3.2$ ;  $SD = 3.05$ ;  $M = 4.96$ ;  $SD = 3.69$ ), level of employment ( $M = 3.02$ ;  $SD = 1.12$ ;  $M = 3.96$ ;  $SD = 0.73$ ), age ( $M = 27.20$ ;  $SD = 6.20$ ;  $M = 36.28$ ;  $SD = 7.30$ ), and gender (49.6% male; 50.4% female; 61.3% male; 38.7% female).

A series of  $t$ -tests were conducted between the U.S. and Singapore samples to ensure they did not vary on any of the variables of interest. The variable pertaining to the number of years participants were employed with their organization was skewed; therefore, the natural log of the variable was used in the  $t$ -test comparison. Bonferroni's correction was utilized to prevent inflation of the family wise error rate, resulting in an adjusted alpha of .0033. Results from these analyses revealed no significant differences on all variables, with the following exceptions: the U.S. sample was significantly younger ( $t = -10.20$ ;  $p < .003$ ), possessed fewer years of employment ( $t = -3.87$ ;  $p < .003$ ), and reported lower levels of employment ( $t = -7.60$ ;  $p < .003$ ). These three variables are utilized as control variables in subsequent analyses. A full list of all means, standard deviations, and  $t$ -values is displayed in Table 1.

When the two samples were aggregated, the average age was 31.5 years (with a range from 20 to 62), and the majority of participants were male (66%). On average, participants reported approximately 4.0 years of work experience, many of whom (50%) held mid-level positions. Participants also represented a variety of ethnicities, with the majority consisting of Chinese (36%), White/Caucasian (29%), and Asian Indian (10%).

### **Procedures**

Following consent, participants were then asked to fill out a standardized questionnaire comprised of questions related to organizational leaders, immediate leaders, leadership distance, collectivism, and in-group membership. Additional measures used as control variables included propensity to trust and various demographic variables including as age, gender, and ethnicity. Participants were either provided a paper and pencil version of the survey or entered their information online. The majority of participants completed the paper and pencil format ( $n = 224$ ), as opposed to the electronic version ( $n = 17$ ), and the two groups did not vary significantly.

**TABLE 1**  
**MEANS, STANDARD DEVIATIONS, AND T-VALUES FOR**  
**U.S. AND SINGAPORE SAMPLES (N = 241)**

Variable	U.S. Sample		Singapore Sample		t-value
	<i>M</i>	( <i>SD</i> )	<i>M</i>	( <i>SD</i> )	
Immediate leadership trust	5.68	(1.15)	5.47	(1.19)	1.35
Organizational leadership trust	5.44	(1.05)	5.55	(1.19)	-0.76
Trust Difference	0.25	(1.21)	-0.08	(1.31)	1.91
Immediate leadership – Social distance	2.59	(1.23)	2.88	(1.20)	-1.80
Immediate leadership – Interaction frequency	6.40	(0.81)	6.45	(0.80)	-0.75
Immediate leadership – Physical distance	3.07	(1.47)	3.31	(1.54)	-1.21
Organizational leadership – Social distance	3.72	(1.18)	3.74	(1.17)	-0.14
Organizational leadership – Interaction frequency	3.54	(2.10)	2.73	(1.88)	3.09*
Organizational leadership – Physical distance	4.77	(1.38)	5.06	(1.52)	-1.50
Collectivism	4.07	(0.56)	4.20	(0.68)	-1.64
Propensity to Trust	3.91	(0.61)	3.95	(0.70)	-0.44
Years of Employment	3.17	(3.05)	4.96	(3.69)	-3.87*
Level of Employment	3.02	(1.12)	3.96	(0.73)	-7.60*
Gender	1.50	(0.50)	1.39	(0.49)	1.80
Age	27.20	(6.20)	36.28	(7.30)	-10.20*

Note. \* $p < 0.01$ .

### Measures

A 7-point Likert scale was utilized for each of the measures (1 = *strongly disagree* to 7 = *strongly agree*), and survey items are included in the Appendix.

#### *Organizational Trust*

The Organizational Trust Inventory (Nyhan & Marlowe, 1997) is a popular measurement tool in leadership studies that has been shown to be both highly reliable and valid with Cronbach's alpha coefficients ranging from .87 to .96 (Joseph & Winston, 2005; Nyhan, 2000; Nyhan & Marlowe, 1997; Thau, Bennett, Stahlberg, & Werner, 2004). The OTI was split into two components: trust in the top leadership and trust in the direct supervisor.

#### *Collectivism*

A 9-item measure constructed by Early (1993) was used to assess levels of collectivism. Cronbach's alpha coefficients for this collectivism scale are high with a range from .70 to .91 (Early, 1993; Dyne, Vandewalle, Kostova, Latham, & Cummings, 2000). Items were coded to indicate that larger values indicate higher levels of collectivism.

#### *Leadership Distance*

A review of the literature failed to uncover any commonly used measure of leadership distance, so we constructed items using the theoretical framework developed by Antonakis and Atwater (2002). Other previously used measures of physical distance were also adapted (e.g., Klauss & Bass, 1982; Kerr &

Jermier, 1978). There were 14 items in total designed to measure the three dimensions of leadership distance.

To determine the factor structure and whether it resembled the three-dimension construct as theorized, a series of exploratory factor analyses were conducted on the leadership distance measure. The principal axis extraction method was utilized for these analyses due to its improved ability to uncover underlying constructs in the data (Fabrigar, Wegener, MacCullum, & Strahan, 1999). Using orthogonal varimax rotation allowed the independent underlying factors to emerge. Upon examining scree plots and results from the analyses, it was determined that forcing a 3-factor solution was best suited to the data for both the immediate and organizational leadership distance measures and was also consistent with Antonakis and Atwater's proposed theory. After rotation, this factor structure accounted for 50.9% of the variance in the variables for immediate leadership distance and 50.5% of the variance in organizational leadership distance once rotation. The majority of items loaded on to the factors they were designed to measure. Factor loadings ranged from .52 to .85, which are well above the .32 cut-off recommended by Tabachnik and Fidell (2007). One item loaded onto both the interaction frequency factor as well as the physical proximity factor: "How frequently do you interact with your boss/employer?" As this item is theoretically a core component of interaction frequency (Antonakis & Atwater, 2002), it was retained as a part of that factor.

One item that did not fit well with the three-factor structure was, "On average, how long does a typical interaction with your boss/employer take?" When considering the highly technological forms through which many interactions transpire in modern organizations, it is not surprising that this item did not fit. It may be difficult for an individual to answer this question when interacting through interfaces such as e-mails, faxes, text-messages, or even pre-recorded video messages. As this item did not load well onto any factor, it was removed from further analyses. In addition, the question, "I feel uncomfortable when he/she approaches me" did not achieve a factor loading above .32 and was thus removed from further analysis. A full list of factor loadings, eigenvalues, and factor properties is provided in Tables 2 and 3.

#### *Propensity to Trust*

Propensity to trust was assessed using an 8-item measure adapted from Harnett and Cummings (1980). Prior research using this measure reported a Cronbach's alpha coefficient of .72 (Dyne, Vandewalle, Kostova, Latham, & Cummings, 2000).

#### *Demographics*

Demographic variables included gender, ethnicity, age, level of employment, and time employed at the organization. These questions were presented last to avoid attrition effects commonly associated with demographic questions (Crano & Brewer, 2002).

## **RESULTS**

Cronbach's alpha of the leadership distance subscales revealed that the immediate leadership social distance ( $\alpha = .86$ ), organizational leadership social distance ( $\alpha = .81$ ), immediate leadership physical distance ( $\alpha = .83$ ), and organizational leadership distance ( $\alpha = .77$ ) measures each attained acceptable levels of reliability (Nunnally & Bernstein, 1994).

**TABLE 2**  
**ROTATED FACTOR LOADINGS FOR THREE FACTOR SOLUTION OF THE IMMEDIATE LEADERSHIP DISTANCE MEASURE**

Item	Factor Loadings		
	Social	Physical	Interaction
I feel like I can talk about non-work related subjects with him/her.	.775	.102	.013
I feel like I can use humor in my interactions with him/her.	.808	.021	.030
I feel uncomfortable when he/she approaches me.	.268	.009	.158
I feel that I can fully express myself when interacting with him/her.	.830	.049	.091
I feel that I can fully understand him/her when we interact.	.779	.062	.038
I can communicate effectively when interacting with him/her.	.662	.151	.077
I usually avoid interacting with him/her.	.675	.125	.263
The nature of my job is such that he/she is seldom around me when I am working.	.137	.687	.362
In my job, my most important tasks take place away from where he/she is located.	-.032	.612	.245
My boss/employer and I are seldom in direct sight of one another.	.144	.719	.246
How frequently do you interact with your boss/employer?	-.155	-.519	-.047
On average how long does a typical interaction with your boss/employer take?	.096	.089	.172
Please click a circle to indicate your physical proximity to your leader.	-.045	.787	-.439
On average, rate the degree of your physical proximity to your leader.	.060	.786	-.100
Eigenvalues	4.51	2.93	1.10
% of variance (after rotation)	25.66	20.95	4.26

**TABLE 3**  
**SUMMARY OF FACTOR LOADINGS FOR OBLIMIN THREE-FACTOR SOLUTION FOR THE ORGANIZATIONAL LEADERSHIP DISTANCE MEASURE**

Item	Factor Loadings		
	Social	Interaction	Physical
I feel like I can talk about non-work related subjects with him/her.	.673	.241	.183
I feel like I can use humor in my interactions with him/her.	.729	.212	.131
I feel uncomfortable when he/she approaches me.	.241	.017	.107
I feel that I can fully express myself when interacting with him/her.	.788	.078	.039
I feel that I can fully understand him/her when we interact.	.688	.104	-.135
I can communicate effectively when interacting with him/her.	.728	.105	-.114
I usually avoid interacting with him/her.	.538	.091	.127
The nature of my job is such that he/she is seldom around me when I am working.	.133	.153	.815
In my job, my most important tasks take place away from where he/she is located.	-.037	.147	.668
My boss/employer and I are seldom in direct sight of one another.	.203	.234	.736
How frequently do you interact with your boss/employer?	-.344	-.680	-.290
On average how long does a typical interaction with your boss/employer take?	.129	.011	.047
Please click a circle to indicate your physical proximity to your leader.	-.025	.153	.851
On average, rate the degree of your physical proximity to your leader.	.278	.195	.712
Eigenvalues	4.64	2.34	1.30
% of variance (after rotation)	23.06	13.81	13.64

The first hypothesis proposed that employees will report higher levels of trust for their direct leaders than for their organizational leaders. Controlling for propensity to trust, age, gender, ethnicity, level of employment, and time employed at the organization, a repeated measure ANCOVA did not revealed significant differences in trust levels. When the U.S. data was analyzed separately, however, significant differences in trust levels were revealed; on average, participants reported higher levels of trust for direct leaders ( $M = 5.73$ ,  $SD = 1.12$ ) compared to organizational leaders ( $M = 5.47$ ,  $SD = 1.00$ ),  $F(1, 97) = 4.53$ ;  $p < 0.05$ ). When the Singapore data was analyzed separately in an ANCOVA, no significant results emerged. These results support hypothesis 1 for the U.S. sample only.

The second hypothesis of this study states the more ‘distant’ a leader is perceived to be, the less their employees will trust them. To test this hypothesis, each of the leadership distance dimensions were correlated with trust levels in the corresponding referent of leadership (see Table 4). Social distance was found to be negatively correlated with trust in direct leadership ( $r = -0.48$ ;  $p < 0.05$ ) and with trust in organizational leadership ( $r = -0.33$ ;  $p < 0.05$ ). These results suggest that individuals who have lower perceptions of social distance between themselves and their leader also have higher levels of trust for that leader. No relationship was found between trust in leadership and physical distance. Interaction frequency was not significantly correlated with either trust in direct leadership or trust in organizational leadership. Social distance was significantly correlated with physical distance ( $r = 0.17$ ;  $p < 0.05$ ) and interaction frequency ( $r = -0.22$ ;  $p < 0.05$ ) for immediate leadership. Social distance also was significantly correlated with physical distance ( $r = 0.29$ ;  $p < 0.05$ ) and interaction frequency ( $r = -0.45$ ;  $p < 0.05$ ) for organizational leadership. These results show that higher levels of social distance are associated with lower levels of trust. Although physical distance and interaction frequency were not associated with trust, these results partially support the second hypothesis of this study.

**TABLE 4**  
**MEANS, STANDARD DEVIATIONS, AND CORRELATIONS OF DIMENSIONS OF LEADERSHIP DISTANCE SCALE AND TRUST VARIABLES**

Leadership Distance Subscale	<i>M</i>	<i>SD</i>	Measure	
			DL Trust	OL Trust
DL Social Distance	2.80	1.39	-0.48*	--
OL Social Distance	3.68	1.27	--	-0.33*
DL Frequency	3.85	0.80	0.06	--
OL Frequency	4.69	0.88	--	0.09
DL Physical Distance	2.27	1.59	-0.02	--
OL Physical Distance	4.43	1.88	--	0.08

*Note.* DL Trust = Direct Leadership Trust; OL Trust = Organizational Leadership Trust; DL Social Distance = Direct Leadership Social Distance; OL Social Distance = Organizational Leadership Social Distance; DL Frequency = Direct Leadership Transaction Frequency; OL Frequency = Organizational Leadership Transaction Frequency; DL Physical Distance = Direct Leadership Physical Distance; OL Physical Distance = Organizational Leadership Physical Distance.

\* $p < 0.05$ .

Following this analysis, a collectivism score was calculated and then correlated with both types of leadership trust to examine the third hypothesis of this study: employees with higher levels of

collectivism exhibit less trust for leaders than employees with lower levels of collectivism. Collectivism did not appear to be correlated with either trust in direct leadership or trust in organizational leadership (see Table 5). Therefore, Hypothesis 3 was not supported.

Hypothesis 4 stated the difference in trust towards an organizational leader and a direct leader will be greater for those with higher levels of collectivism than for those with lower levels of collectivism. To test this hypothesis, a difference score between trust in immediate leader and trust in organizational leader was calculated for each participant and then treated as the dependent measure to be correlated with collectivism. However, no significant relationship between these two variables emerged (see Table 5). These results indicate that there is no relationship between collectivism and differences in trust levels for the two referents of leadership, providing no support for Hypothesis 4.

**TABLE 5**  
**MEANS, STANDARD DEVIATIONS, AND CORRELATIONS OF COLLECTIVISM AND TRUST VARIABLES**

	OL Trust	Trust Difference	Collectivism	<i>M</i>	<i>SD</i>
DL Trust	0.39*	0.58*	0.07	5.59	1.17
OL Trust		-0.52*	0.06	5.49	1.11
Trust Difference			-0.01	-0.10	1.26
Collectivism				4.13	0.62

*Note.* DL Trust = Direct Leadership Trust; OL Trust = Organizational Leadership Trust.

\* $p < 0.05$ .

## DISCUSSION

As the field of organizational behavior expands, an increasing amount of research is dedicated to trust and leadership. Prior research demonstrates a strong link between employee trust in leaders throughout a variety of organizational settings (Aronson, 1995; Clark & Mills, 1993; Fukuyama, 1995; Kirkpatrick & Locke, 1996; Luke, 1998). Leadership distance is also an important factor in understanding leadership and trust in leaders (Antonakis & Atwater, 2002; Henttonen & Blomqvist, 2005). The current research sought to expand the concept of trust as it applies to employees with different cultural value orientations and different levels of distance from their leaders.

Among the U.S. sample, there was evidence that participants tend to have higher levels of trust for their immediate leaders than for their organizational leaders. This finding provides some preliminary evidence that organizational leaders face a larger challenge in building trusting relationships with employees at lower levels of the organization. In addition, our findings suggest that perceptions of leader-follower distance are significantly related to leadership trust. Our initial prediction was that less leadership distance would result in higher levels of leadership trust; however, this hypothesis was only partially supported by the data. Specifically, perceptions of social distance were negatively correlated with trust in both immediate leadership and organizational leadership. This indicates that the less socially distant an individual is from his or her leader, the more trust they will have in him or her. The remaining dimensions of leadership distance (physical distance and interaction frequency) were not significantly correlated with leadership trust. These findings are largely in accord with outcomes from Shamir's (1995) study of "close" and "distant" charismatic leaders, suggesting that leaders who are psychologically close to their followers are able to build trust by sharing the impact of decisions. Shamir (1995) states, "In close leadership situations, in contrast, followers' trust in the leader is more likely to depend on the history and outcomes of direct interactions and transactions with the leader. It is through such interactions and

transactions that the leader's honesty, reliability, and trustworthiness can be directly manifested by the leader and assessed by close followers" (p. 26).

In addition, this study makes some headway toward establishing a reliable measure of leader-follower distance. Factor analysis results indicate the three-factor structure is well suited for this measure. Values of internal consistency were strong and further support the integrity of the leadership distance measure. Overall, the leadership distance measure demonstrated robust psychometric properties; therefore, further analysis operationalizing leadership distance according to these three dimensions is an important direction for future research.

The data did not support our prediction that employees with higher levels of collectivism would exhibit less trust for leaders. This finding may suggest that collectivism is too broad of a term to be assessed as a single measure. As more recently proposed by House (2004), collectivism can be distinguished into multiple forms, including in-group collectivism and institutional collectivism. Further research is warranted to better understand the effects of collectivism on trust in leadership, and multiple dimensions of collectivism should be included.

Finally, several limitations should be addressed in the current study. The sample included MBA students with three to five years of work experience, and is subject to limitations of cross-sectional survey research, including concerns with self-report, social desirability, and common source bias. Additional investigations could include broader and more diverse samples to further develop this line of research.

Despite these limitations, the current study is unique as prior research has not simultaneously examined both immediate and organizational leadership trust (Dirks & Ferrin, 2002), and represents an important dimension for leaders to consider. In addition, while the detrimental impact of physical distance on leader-follower trust can be mitigated, perceptions of high levels of social distance represent an important factor that leaders must address in order to develop and maintain trusting relationships with their followers. As leaders increasingly work with followers across multiple geographic regions around the world, our results provide some preliminary evidence that the frequency and types of interactions and greater physical distances may be less important than the quality of the interactions, at least when it comes to developing interpersonal trust in the workplace.

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## APPENDIX A

### SURVEY ITEMS

Complete the following section by thinking of your current, or most recent, immediate supervisor and top organizational leader (CEO or President). After reading the statement, circle the number from the scale that is closest to your opinion. For each question, please provide your response in relation to your immediate leader in the left columns and your organizational leader in the right columns.

#### **Leadership Trust (1 = Strongly Disagree; 7 = Strongly Agree)**

- I am confident that he/she is technically competent at the critical elements of his/her job.
- I am confident that he/she will make well thought out decisions about his/her job.
- I am confident that he/she will follow through on assignments.
- I am confident that he/she has an acceptable level of understanding of his/her job.
- I am confident that he/she will be able to do his/her job in an acceptable manner.
- When he/she tells me something, I am confident that I can rely on what he/she tells me.
- I am confident that he/she can do the job without causing other problems.
- I am confident that he/she will think through what he/she is doing on the job.

#### **Leadership Distance (1 = Strongly Disagree; 7 = Strongly Agree)**

- I feel like I can talk about non-work related subjects with him/her.
- I feel like I can use humor in my interactions with him/her.

I feel uncomfortable when he/she approaches me.  
I feel that I can fully express myself when interacting with him/her.  
I feel that I can fully understand him/her when we interact.  
I can communicate effectively when interacting with him/her.  
I usually avoid interacting with him/her.  
The nature of my job is such that he/she is seldom around me when I am working.  
In my job, my most important tasks take place away from where he/she is located.  
My boss/employer and I are seldom in direct sight of one another.  
How frequently do you interact with your boss/employer? (Include emails, conversations, phone calls, instant messages, or any other form of direct interaction)

- Daily
- Multiple times a week
- Once a week
- Multiple times a month
- Once a month
- A few times a year
- Once a year or less

On average how long does a typical interaction with your boss/employer take?

- Less than 5 minutes
- 5-10 minutes
- 10-20 minutes
- 20-40 minutes
- 40 minutes to an hour
- 1-2 hours
- More than 2 hours

Please circle a number below to indicate your physical proximity to your leader.

- Same building and same floor
- Same building but different floor
- Different building but on the same city block
- Different city
- Same country but different region
- Different country

On average, rate the degree of your physical proximity to your leader (1 = Very close; 7 = Very distant).

# **What is Wisdom? The Development and Validation of a Multidimensional Measure**

**Dora E. Schmit**  
**Georgia Southern University**

**Jeffrey Muldoon**  
**Louisiana State University**

**Kate Ponders**  
**University of Nevada, Las Vegas**

*This study develops a multidimensional scale for measuring the concept of wisdom. Through synthesizing and augmenting multiple conceptualizations and operationalizations of wisdom, we propose and validate a twenty-one item measure of wisdom. This measure integrates literature from both the implicit and explicit theories of wisdom in psychology and also incorporates recent management literature. Two studies are conducted and both demonstrate support for dimensionality, reliability and validity of the proposed scale. This scale offers a more complete and theoretically grounded measure of wisdom in a workplace context, thus contributing to the extant literature.*

## **INTRODUCTION**

The concept of wisdom has fascinated both scholars and laypersons for decades, yet a clear definition of wisdom still remains unknown. Considerable debate has emerged over the necessary elements of wisdom and two prominent literature streams have evolved. Specifically, Ardel (2003) explains that empirical research on wisdom typically (1) evaluates implicit theories or the meaning of wisdom among laypeople or (2) measures people's degree of wisdom or their wisdom-related performance founded on implicit or explicit theories.

The first literature stream focuses on implicit theories that individuals hold about the nature of wisdom and the characteristics that comprise wise individuals (Baltes & Smith, 2008). This side concentrates on measuring the dimensions of wise individuals themselves, in which wisdom can be argued as a personality characteristic instead of a performance-based characteristic that might be context specific (Ardelt, 2003; Webster, 2003). Moreover, this line of research conceptualizes wisdom as including cognitive, affective, and reflective personality characteristics (Ardelt, 2003), and often demonstrates that wise individuals are knowledgeable, mature, tolerant, emphatic, experienced and intuitive (Baltes & Smith, 2008)

The second stream of research focuses on explicit theories, in which "explicit theories are constructions of (supposedly) expert theorists and researchers rather than laypeople" (Sternberg, 1998, p. 349). The Berlin Paradigm defines wisdom as an "expert system dealing with the meaning and conduct of

life” (Baltes & Staudinger, 2000, p. 124). This paradigm indicates that the term “expertise” is intended to denote that it is not intelligence in the typical sense, but instead, a considerably more multifaceted system of knowledge, procedural strategies, and intuition. (Baltes & Smith, 2008). The expert knowledge system can be reflected in human behavior and decision making, such as how individuals answer: Which future life goals to pursue and how? How to deal best with critical problems? How best to make sense of our life history and past experiences? (Baltes & Smith, 2008). Unlike the preceding group, implicit measures of wisdom are intended to evaluate an individual’s wisdom-related performance compared to personality characteristics (Ardelt, 2003). Moreover, it has been argued that by conceptualizing wisdom as an “expert knowledge system,” wisdom exists externally from individuals, whereas the other literature stream suggests that wisdom is within wise persons (Ardelt, 2004).

Despite the differences between the two prominent literature streams, there is a general agreement that wisdom is a multidimensional construct (Ardelt, 2003; Webster, 2003). Although the concept of wisdom is prevalent throughout psychology literature, it is only minutely integrated into management research (McKenna, Rooney, & Boal, 2009). Recently, a call for such research has been made. McKenna et al. (2009, p. 177) argue that “leadership requires wisdom to provide excellence in judgment, insight and character and that if the principle features of wisdom are understood, leaders can be evaluated according to a robust criteria based on these principles.”

Thus, the fundamental objective of this work is to establish an encompassing and organizationally relevant measure of wisdom that can be used in assessing this individual trait. By integrating management literature and both psychology streams, we present a multidimensional conceptualization of wisdom that is applicable in a generalized organizational and managerial context. Accordingly, we offer a comprehensive definition of wisdom, such that wisdom can be operationalized as possessing seven dimensions: reflective, openness, interactional aptitude, practical, ethical sensibility, paradoxical tolerance and experience. This operationalization is tested through two studies, in which the second study (Phase III) utilizes full-time employees. These dimensions are expanded on subsequently.

## **DIMENSIONS OF WISDOM**

### **Practical**

The practical dimension of wisdom refers to an individual’s ability to reason carefully. More specifically, this relates to an individual’s ability to screen incoming information and to be able to select or focus on the aspect that is most critical. Research has suggested that wise people must be able to create and comprehend logical arguments that are founded on thorough propositions (McKenna, et al., 2009). Moreover, wise individuals are often skeptical and question other’s assertions or question commonly accepted views (McKenna, et al., 2009; Sternberg, 1990). Additionally, it has been argued that wise individuals direct their attention to the precise level or to the key pieces of information by selecting the most prominent facts in a particular situation (Eflin, 2003). Malan and Kriger (1998, p. 246) state that wise individuals “filter and interpret the noise from within their own organizations and determine the salient points on which to act.”

The practical dimension of wisdom also refers to an individual’s decision making style, such that they look at a problem from multiple perspectives. McKenna et al. (2009) argue that wise leaders understand that decision-making seldom requires applying absolute principles. Therefore, wise individuals not only know absolute principles, but also know how and why to apply them in a complex world (McKenna, et al., 2009). This dimension also relates to “the fundamental pragmatics of life” in the Berlin paradigm (Baltes & Smith, 2008), such that individuals can wisely address which future life goals to pursue and how? Ardelt’s (2003) arguments also provide support for this dimension. Specifically, she argues that wise people look at phenomena from different perspectives and attempt to remove subjectivity from decision making (Ardelt, 2003).

Taken together, previous research indicates support for a dimension of wisdom that considers a person’s carefulness, and we label this dimension *practical*. We take the position that the practical dimension of wisdom is reflective, such that wise people possess the ability to reason carefully.

## **Reflective**

The reflective dimension of wisdom refers to an individual's ability to reminisce on one's past and present life. Webster (2003, p.14) indicates that reflecting on one's past performs a mass amount of important psychological functions, "including identity formation and maintenance, self-understanding, problem-solving, and adaptive coping". Ultimately, reflecting upon one's life allows an individual to acknowledge both personal strengths and weaknesses; this further presents an opportunity to enhance personal strengths while attenuating weaknesses (Webster, 2003).

This dimension also relates to Baltes and Smith's (2008) life review, which addresses how to understand one's life history and past experiences. Similarly, Ardel (2003) argues that wisdom contains a dimension of reflectivity. Particularly, she argues that reflectivity is a prerequisite to wisdom's cognitive and affective components, and that it is through this dimension that individuals learn to not react to unpleasant circumstances and to acknowledge the reality of the current situation (Ardelt, 2003). Therefore, we believe that being reflective is an important component to wisdom, such that we label this dimension *reflective*. Moreover, we believe that this dimension will act as a reflective indicator of wisdom.

## **Openness**

Openness to experience is one of the "big five" dimensions of personality (Digman, 1990). Specifically, openness refers to an individual's creativeness, imagination, and intellectual curiosity (Digman, 1990). Several researchers have suggested that being open to alternative views or open to views unlike one's own is a key component to wisdom (Webster, 2003; Baltes & Smith, 2008). Likewise, openness relates to listening to and being tolerant of alternative views and possible solutions to problems. Webster (2003, p. 15) argues that, "rigid and inflexible responses to life's demands make an individual unwise". Additionally, Baltes & Smith (2008, p. 58) present a dimension of wisdom they term relativism, such that "expressing tolerance and respect for beliefs or actions unfamiliar or contrary to one's own" is an outcome of wisdom. Taken together, previous research lends support for a dimension of wisdom we label *openness*; and consistent with previous research, we believe openness will be a reflective indicator of wisdom.

## **Interactional Aptitude**

Interactional aptitude refers to an individual's ability to regulate one's own emotions and expressions and to understand other's emotions and behaviors. In other words, this dimension includes emotional, social, and communication skills. Several researchers have argued that affect sensitivity and emotional regulation are critical components to wisdom (Webster, 2003). Wise individuals are able to attune their emotions and present appropriate expressions for the situation at hand. Webster (2003, p. 14) states that "Recognizing, embracing, and employing emotions in a constructive way is a benchmark of wisdom." Moreover, Webster (2003) suggests that wise individuals are able to recognize and distinguish among mixed emotions, and use this information to assist in problem resolution. Furthermore, during interactions with others, wise individuals are able to comprehend other's expressions and use this information to further understand the individual, including the individual's beliefs, attitudes, values, abilities, and inabilities (Webster, 2003). Taken together, previous research indicates that wise people have high interpersonal skills, and we therefore label this dimension *interpersonal aptitude*; likewise, we believe interpersonal aptitude will be a reflective indicator of wisdom.

## **Paradoxical**

The paradoxical dimension of wisdom refers to an individual's ability to tolerate uncertainty and ambiguity. It has been argued that wise people have the ability to tolerate uncertainty, such that wise leaders envision and pursue long-term goals. Likewise, wise leaders can picture the effects of alternative courses of action in the long-term (McKenna & Rooney, 2005). Furthermore, wise individuals can "grasp and reconcile the paradoxes, changes and contradictions of human nature" (McKenna, et al., 2009, p.177). In short, previous research lends support for a dimension of wisdom we term *paradoxical*, and we believe that this dimension will be a formative indicator of wisdom.

## **Ethical Sensibility**

The ethical sensibility dimension of wisdom refers to an individual's ethics and ethical judgments. Aristotle strongly encouraged the role of ethics and virtue, which has been claimed to be a central component to practical wisdom (Baltes & Smith, 2008). Moreover, Sternberg's three-part Balance Theory of Wisdom largely centers on values, such that wisdom reveals itself by displaying concern for others (Sternberg, 1990). However, no empirical measure or published article relating ethics to wisdom could be found by the researchers. Therefore, we attempt to integrate ethics into a measure of wisdom, and we term this dimension *ethical sensibility*. Thus, we believe ethical sensibility will be reflective indicator of wisdom.

## **Experience**

The experience dimension of wisdom refers to an individual's experience with challenging life situations. Webster (2003, p. 14) states that, "Wisdom cannot develop in a vacuum. Rather, it emerges during the exigencies of life, the rough and tumble of everyday existence." Nonetheless, it is argued that is it not just accumulated general experience, but instead, experiences that are difficult or morally challenging that allows wisdom to grow (Webster, 2003). Thus, we believe experience is an important component of wisdom, such that we term this dimension *experience*. Moreover, we believe that this dimension will act as a formative indicator of wisdom.

As detailed above, the seven proposed dimensions of wisdom are theoretically supported. These dimensions integrate literature from management and incorporate both implicit and explicit theories of wisdom provided in the psychology literature. We believe that the experience and paradoxical dimensions will act as formative indicators of wisdom, whereas the practical, reflective, openness, interpersonal aptitude, and ethical sensibility dimensions will act as reflective indicators of wisdom. The proposed measure of wisdom is examined in the subsequent studies which adhere to the scaling procedures advocated by Netemeyer, Bearden, and Sharma (2003).

## **METHOD**

Following scaling procedures, the research was composed of three phases (Netemeyer, Bearden, & Sharma, 2003). Phase I entailed a comprehensive compilation of measures representing each of the above domains, as well as the use of three expert raters to clarify and refine the items prior to piloting the measure. Phase II entailed a pilot study of student respondents in an effort to further refine and clarify the measure. In this phase we specifically sought to assess the dimensionality and reliability of the items, and given this aspiration and the nature of the wisdom construct, a student sample was appropriate. Phase III sought to establish the content domain of the measure and tested the proposed scale in a field setting.

### **Phase I**

As alluded to above, once all of the items for each domain were compiled, a panel of three raters familiar with the extant wisdom literature were used to rate each item for clarity and domain specification. Each rater began by classifying each item to a hypothesized dimension of wisdom; only items that were correctly classified by all three raters were retained, thus there needed to be 100% inter-rater reliability in order for an item to be advanced to use in Phase II. Once this was complete, the raters were then asked to look at the set of items within each domain to ensure it adequately captured the dimension of interest. Of the sixty-two items that were originally compiled to measure wisdom, the inter-rater agreement suggested that a forty-six item measure be used in Phase II.

### **Phase II**

Two hundred and six undergraduate students from four sections of introductory management and marketing courses at a large southeastern university were surveyed. Student participation was incentivized with extra credit. Participants were assured that their responses would remain kept confidential and that only aggregate data would be reported. The sample (N=221) consisted of 117

females (53%) and 103 males (47%). The average age of the participants was 22.68 years (range 19-57), 13% were employed full-time, 41% were employed part-time, and 46% were full-time students/unemployed. Participant ethnicity was primarily Caucasian (80%), with 11% indicating Black or African American, and 4% Hispanic or Latino.

### *Wisdom Measures*

The items used to measure each of the proposed dimensions of wisdom are as follows. Please note that all items were measured by a five-point Likert-type scale that was anchored by “strongly disagree” and “strongly agree.” All items are provided in the Appendix.

The interactional aptitude dimension of wisdom was measured with ten items adopted from Goleman (1995) representing emotional intelligence and seven items adopted from Ferris et al. (2001) representing social skill. A representative item is “In social situations, it is always clear to me exactly what to say and do.” The practical dimension of wisdom was measured with two items adopted from Davis (1980) representing perspective taking and six items adopted from Heppner & Peterson (1982) representing problem-solving confidence and approach/avoidance style. A representative item is “I believe there are two sides to every question and try to look at them both.” The paradoxical dimension of wisdom was measured with six items adopted from Freeston, Rheaume, Letarte, Dugas, & Ladouceur (1994). A representative item is “The ambiguities in life stress me.” The ethical dimension of wisdom was measured with four items adopted from Brown, Trevino, and Harrison (2005) and two items adopted from Reichel & Neumann (1988). A representative item is “I define success not just by results but also by the way that they are obtained.” The experience dimension of wisdom was measured with two items adopted from Webster (2003) and three items adopted from Webster (2007). A representative item is “I have lived through many difficult life transitions.” The reflective dimension of wisdom was measured with four items adopted from Webster (2003). A representative item is “I often think about my past.” The openness dimension of wisdom was measured with ten items adopted from Goldberg et al. (2006). A representative item is “I enjoy hearing new ideas.”

### *Other Measures*

Four constructs expected to positively correlate with wisdom were included in the study to provide evidence of convergent and discriminant validity. These constructs consisted of self-monitoring, core self-evaluations, self-reported grade point average (GPA) and age.

The thirteen item scale developed by Lennox & Wolfe (1984) was used to measure self-monitoring. Given that self-monitoring captures both ability to modify self-presentation and sensitivity to expressive behavior of others, it should positively correlate with wisdom; such that those high in wisdom should be able to scan their environment and modify their behavior accordingly. This scale utilized a five-point Likert-type scale anchored by “strongly disagree” and “strongly agree.” A representative item is “I have the ability to control the way I come across to people, depending on the impression I wish to give them.” The internal-consistency estimate of reliability for this scale was  $\alpha = .75$ .

The twelve-item scale developed by Judge, Erez, Bono, & Thoresen (2003) was used to measure core self-evaluations (CSE). CSE is an especially relevant construct as it represents four core traits (each of which should be positively related to Wisdom): self-esteem, generalized self-efficacy, neuroticism, and locus of control. This scale utilized a five-point Likert-type scale anchored by “strongly disagree” and “strongly agree.” A representative item is “I determine what will happen in my life.” The internal-consistency estimate of reliability for this scale was  $\alpha = .82$ .

To attain grade point average information, respondents were asked to report their GPA at the end of the previous semester. GPA was collected as a proxy for intelligence (e.g. Farsides & Woodfield, 2003; Gutman, et al., 2003) and conscientiousness (Honeycutt, 2008), in which both constructs should be positively correlated with wisdom. Though this is a crude measure, there is no reason to suspect students would intentionally misrepresent this information. Additionally, fear of academic dishonesty repercussions should actually have a reverse effect to any social desirability bias, thus incentivizing honesty.

Lastly, extant literature has shown age to be positively correlated with wisdom (e.g. Staudinger, Smith, & Baltes, 1992). As such, this demographic variable was collected for use as a correlate in addition to its demographic function.

Though multiple measures hypothetically could serve to help establish convergent and discriminant validity, the research team felt the above measures best represented the breadth of the literature and still fit within reasonable space and time constraints. As an example to this point, whereas conscientiousness hypothetically fit, it alone is ten items. The core self-evaluations scale is a twelve item measure that has been empirically established, is widely accepted, and represents four relevant yet distinct traits. Additionally, as noted above, GPA has been used as a proxy for conscientiousness and intelligence.

### *Controls*

Except for age, the extant literature did not suggest the necessity of controlling for any specific demographics or variables when studying wisdom. Age has been commonly used, however given Ardelit (2003) the researchers found age more prudently used as a correlate than a control. Gender, Race, and years of job experience were gathered out of prudence, but no relationships were hypothesized nor were any subsequently detected.

### *Results*

The primary objective of the study was to act as pilot test to assist in item trimming and to act as an initial validity testing procedure. Exploratory factor analysis (EFA) and item analyses were used to refine the scale and to analyze a theoretical a priori initial factor structure. As encouraged by Netemeyer et al. (2003), common factor analysis (Principal Axis Factoring) and an oblique rotation method (Direct Oblimin) were used. These methods are suggested to be more relevant in scale development, since common factor analysis is typically more associated with recognizing the underlying dimensions of a set of items and because EFA--based common factor analyses often generalize to CFA more so than principle components factor analysis. Likewise, Direct Oblimin assesses the extent to which multiple dimensions correlate, yielding more meaningful theoretical factors.

Six of the seven proposed dimensions maintained adequate factor structure (Figure 1). Both the scree plot and the total variance explained supported the six dimension solution. Specifically, the scree plot's elbow broke at the sixth dimension, and the total variance explained per dimension became less than four after the sixth dimension as well. Hair, Tathman, and Black, (1998) suggest that at least 5% of the variance explained should be associated with a factor in order for that factor to be meaningful. Therefore, the author's agreed that since the sixth factor explained 4.66% of the total variance, it ought to be kept in the solution; whereas the seventh factor only explained 3.46% of the total variance. The majority of the items representing the ethical dimension of wisdom did not load onto any of the factors, or else indicated poor loadings ( $<.4$ ). After considering that the researchers could not find any published empirical measure of ethics relating to wisdom and that the ethical items indicated poor loadings, they were removed from the subsequent analyses. Overall, in the subsequent analyses, items with poor loadings were removed from the analysis and factor analysis was repeated until all cross-loadings were nonexistent in the factor structure. The final analysis supported six factors and twenty-six indicators.

As noted by Netemeyer et al. (2003), it is important to assess internal consistency in the initial stages of scale development. This includes internal consistency estimates of reliability (coefficient alphas), average inter-item correlations, corrected item-to-total correlations, item variances, and item-wording redundancy. Therefore summated scales were created for each dimension of wisdom and internal consistency was assessed. The sub-dimensions each had acceptable reliability estimates: Paradoxical ( $\alpha = .85$ ), Experience ( $\alpha = .84$ ), Openness ( $\alpha = .82$ ), Interactional ( $\alpha = .65$ ), Reflective ( $\alpha = .82$ ), and Practical ( $\alpha = .77$ ). Admittedly, the Interactional sub-dimension scale was lower than the .7 target, but the researchers felt it was still sufficient given it was above .6 and was only a three item measure. The corrected inter-item correlations for all of the retained items were  $>.5$ , thus meeting the recommendation of Bearden and Netemeyer (1998).

**FIGURE 1**  
**FACTOR LOADING PATTERN MATRIX**

	Dimensions					
	Paradoxical	Experience	Openness	Interactional	Reflective	Practical
PX5	.814					
PX4	.808					
PX3	.766					
PX6	.646					
PX2	.577					
PX1	.546					
E3		.857				
E1		.802				
E5		.709				
E2		.681				
E4		.483				
O7			-.831			
O1			.762			
O9			-.635			
O2			.627			
O6			-.557			
I4				.630		
I6				.602		
I3				.498		
R4					.753	
R1					.741	
R2					.707	
R3					.679	
P7						-.790
P6						-.677
P8						-.617

Construct validity of the proposed measure was assessed in multiple ways. First, as noted above the use of three expert raters to assign each item to a latent construct and only retaining items that had 100% inter-rater agreement provides strong support for face validity (Netemeyer, et al., 2003). Convergent validity was supported by (a) the high standardized factor loadings of each item (>.5, most >.71) indicating that in most cases the latent factor explains the majority of the variance in each item) (Hair, et al., 1998), and (b) sufficient internal consistency estimates of reliability for each sub dimension (noted above) (Hair, et al., 1998; Netemeyer, et al., 2003). Nomological validity was evidenced by the

correlations among the dimensions of wisdom, and through the correlations among the dimensions of wisdom to the proposed correlates (self-monitoring, core-self evaluations, and age). Table 1 shows that each sub-dimension was positively correlated to one, if not two or three of the correlates. GPA did not prove to be positively correlated with any of the six sub-dimensions, but admittedly it was a crude measure to begin with. Given the nomological net established by the other correlates, it is reasonable to conclude evidence of nomological validity for the proposed measure.

**TABLE 1  
CORRELATIONS**

	E	I	R	O	PX	P	SM	CS	Age	GPA
Experience	1	.215**	.301**	.078	-.064	.207**	.268**	-.108	.194**	-.119
Interactional	.215**	1	.124	-.030	-.026	.323**	.644**	.316**	-.057	.043
Reflective	.301**	.124	1	.030	-.218**	.124	.202**	-.008	.023	.015
Openness	.078	-.030	.030	1	.252**	.302**	.160*	.078	.061	.013
Paradoxical	-.064	-.026	-.218**	.252**	1	.081	.011	.388**	.121	.075
Practical	.207**	.323**	.124	.302**	.081	1	.459**	.391**	.164*	.120
SelfMonitor	.268**	.644**	.202**	.160*	.011	.459**	1	.342**	-.017	.060
CoreSelf	-.108	.316**	-.008	.078	.388**	.391**	.342**	1	.022	.161*
Age	.194**	-.057	.023	.061	.121	.164*	-.017	.022	1	.091
GPA	-.119	.043	.015	.013	.075	.120	.060	.161*	.091	1

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

### Discussion

Phase II included a pilot test to assist in item trimming and to analyze initial validity. The results indicated that a six factor solution existed, such that wisdom can be thought to contain six dimensions. These dimensions include openness, reflective, experience, interactional aptitude, practical and paradoxical. The ethical dimension was not supported in the analysis, and may relate to why the researchers could not find any existing empirical support regarding the relationship between wisdom and ethics. Therefore, this dimension was removed from the following analyses and the operationalization of wisdom. Of the forty-six items that were formulated prior to Phase II, twenty items were removed, leaving twenty-six items to be examined in Phase III. Dimensionality, reliability, internal consistency, and construct validity of the measure were found to be acceptable; and nomological validity of the measure was supported by the significant correlations among the dimensions of wisdom and other meaningful constructs.

### Phase III

Phase III sought to further refine and validate the wisdom scale. The twenty-six item measure of wisdom was analyzed using confirmatory factor analysis (CFA). The analysis included two stages (Hair, et al., 1998). The first stage assessed the measurement theory that related the indicators to the dimensions of wisdom, whereas the second stage assessed the structural paths of the dimensions of wisdom and evaluated alternative models.

Two hundred and eighty-nine full-time employees participated in the study. Participants were recruited with the assistance of MBA students enrolled in two sections of an Organizational Behavior course at a large southeastern university. Students were asked to solicit responses from up to five individuals meeting the following criteria: current employment (>30 hours per week), minimum of three years full-time work experience, and willingness to voluntarily participate in a research study. The sample consisted of one-hundred forty-two females (49.1%) and one-hundred forty-seven males (50.9%). The average age of the participants was 34.04 years. Participants also indicated their current position within their place of employment; 34.3% held non-managerial positions, 14.5% held lower-level managerial positions, 18.3% held mid to upper level managerial positions, and 32.9% indicated that they held a position other than what was provided in the survey.

Participants were assured that responses would remain confidential and that only aggregate data would be reported. To maintain data integrity, IP address verification was employed by the research team to ensure that the same individual did not complete the survey multiple times (no causes for concern were detected).

*Results*

The first analysis examined the measurement theory of wisdom. Confirmatory factor analysis was conducted on the twenty-six item measure of wisdom (items supported in Phase II). The model specified a first-order model in which all of the dimensions were correlated and the items were reflective of each specified dimension. The goodness-of-fit measures indicated that this model contained inadequate fit ( $\chi^2 = 648.5$ ,  $df = 284$ ,  $p < .000$ , TFI & CFI < .9). Nonetheless, RMSEA was supportive of this model (.067), and the ninety percent confidence interval was between .06 and .74; however, this is not surprising because RMSEA considers model complexity and sample size (Hair, et al., 1998). The factor loadings, residual matrices, and modification indices indicated that five items should be removed (Paradoxical 1 & 2, Openness 2 & 3, and Reflective 2). These items either had poor loadings (<.5), large modification indices (>4.0), or large standardized residuals (>4.0). Average variance extracted was partially acceptable, such that experience, paradoxical, interactional, and practical dimensions had more than fifty-percent variance extracted; however, openness and reflective had less than or equal to fifty-percent variance extracted. Composite reliabilities indicated that adequate reliability existed, such that each dimension was equated to have a reliability measure larger than .75 (Netemeyer, et al., 2003). Likewise, tests of discriminant validity supported that each dimension surpassed this examination.

**TABLE 2  
RESULTS OF MEASUREMENT MODEL 2**

<b>Dimension</b>	<b>Composite Reliability</b>	<b>Variance Extracted</b>	<b>Discriminant Validity (Squared Inter-construct Correlations)</b>
Openness	.79	.56	.01, .01, .006, .004, .06
Interactional	.78	.56	.01, .21, .001, .07, .03
Practical	.81	.59	.01, .21, .06, .005, .09
Reflective	.78	.54	.006, .06, .05, .10, .03
Paradoxical	.86	.62	.05, .004, .001, .005, .05,
Experience	.84	.51	.06, .07, .09, .10, .05

After deleting the five items mentioned above, confirmatory factory analysis was repeated with the same model structure. Although the chi-square value was still significant ( $\chi^2 = 318.4$ ,  $df = 174$ ,  $p < .000$ ), this is typical, because the measure is sensitive to sample size and model complexity (number of indicators). The results indicated acceptable fit (RMSEA = .054; CFI = .938; TLI = .925; and CMIN/DF = 1.830.) The factor loadings, residual matrices, and modification indices were also supportive of this model. Factor loadings were significant and the residual matrix and modification indices were  $< 4.0$ . Also unidimensionality of each item and construct was established. The average variance extracted for each dimension was remarkably improved over the previous model, and composite reliabilities also indicated improvement. Likewise, tests of discriminant validity were surpassed as well (See Table 2).

The second part in the analysis examined four alternative models. The first model assessed the hypothesized model, which specified the experience and paradoxical dimensions as formative, and the openness, reflective, interactional and practical dimensions as reflective. The second model specified all indicators as reflective, whereas the third model specified all indicators as formative. Lastly, the fourth model, which was essentially equivalent to the hypothesized model, specified the experience, paradoxical, and practical dimensions as formative, and the reflective, interactional, and openness dimensions as reflective. The results indicated support for the hypothesized model ( $\chi^2 = 359.1$ ,  $df = 183$ ,  $p < .000$ , RMSEA = .058; CFI = .925; TLI = .914; and CMIN/DF = 1.962) (See Table 3). In addition, unidimensionality of the items and the dimensions was established. Reliability and validity, including construct validity, predictive validity, discriminant validity, and nomological validity were also supported in the hypothesized model.

**TABLE 3**  
**STRUCTURAL MODEL RESULTS**

<b>Model Description</b>	$\chi^2$	<i>df</i>	$\chi^2$ <b>Difference Test</b>	<b>RMSEA</b>	<b>RMSEA: C.I.</b>	<b>TFI</b>	<b>CFI</b>	<b>PNFI</b>
Null Model	318.4	174		.054	.044-.063	.925	.938	.725
All dimensions reflective	355.2	183	4.089	.057	.048-.066	.916	.926	.750
Experience and Paradoxical are formative; Openness, Reflective, Interactional, and Practical are reflective	359.1	183	4.522	.058	.049-.067	.914	.925	.749
Experience, Paradoxical, and Practical are formative; Openness, Reflective, and Interactional are reflective	370.2	183	5.756	.06	.051-.068	.91	.92	.745
All dimensions are formative	2683.678	981	2.93	.078	.074-.081	.670	.078	.555

In order for the third model to be identified, the self-monitoring and core-self evaluations scales were incorporated into the model structure. As noted previously, there were very similar results in several of the models; however, the formative model indicated severely worse fit. Nonetheless, the formative model yielded support for predictive validity, such that wisdom related positively to the four dimensions of the core self-evaluations scale and wisdom also related positively to self-monitoring.

Not only does theory support a second-order model, but also the empirical results shown in Table 3 indicate that a second-order factor structure yields equivalent results to that of a first-order structure, while being more parsimonious and possessing more degrees of freedom. It is asserted that a second-order model is supported when the model produces results that are as well as those attained from a first-order model (Hair, et al., 1998). Although, the chi-square difference statistic is often useful in comparing alternative models of the same order, it has been noted that this statistic is not as useful when comparing models of different orders (Hair, et al., 1998). Moreover, the first-order model should always attain better fit on absolute indices due to more paths describing equal degrees of covariance, whereas the second-order model is likely to perform better on fit indices that capture model parsimony (Hair, et al., 1998). As stated previously, nomological validity was also established with the hypothesized second-order model, which is described to strengthen support of a second-order model (Hair, et al., 1998). Therefore, the hypothesized second-order model not only demonstrates support through attaining nearly equivalent goodness-of-fit indices, but also through attaining nomological and predictive validity.

As noted, there are several equivalent models in this analysis. For example, model four is equivalent to model one. Thus, both models should contain similar results and goodness-of-fit indices. Nonetheless, theory demonstrates greater support for the hypothesized model, such that experience and paradoxical tolerance develop wisdom; whereas wise people demonstrate being open to new experiences and the ability to reason, reflect upon one's past, and interact with others (Webster, 2003). Ultimately, this analysis provides both empirical and theoretical support for our hypothesized model.

Lastly, invariance across males and females was examined. First, the least restrictive model was assessed using the second model structure in Phase III (study two) stage one. This test of invariance examines the extent to which an equivalent pattern of fixed and non-fixed parameters across both groups (males and females) exists. The results indicated reasonable fit ( $\chi^2 = 474.56$ ,  $df = 310$ ,  $p < .000$ ., CFI = .923, RMSEA = .043, R.I. = .035-.051) ; all indicator loadings to relevant factors were significant; and discriminant validity was maintained. Thus, configural invariance was supported. The researchers examined metric invariance next, which assesses the extent to which factor loadings are equivalent across samples. The results indicated that metric invariance was attained across gender ( $\chi^2$  difference test = 23.557/14,  $p > .05$ , and CFI change = .004). Moreover, the model was not statistically different from the baseline model, which was supported by a p-value = .052 and a change in CFI  $< .01$ . Researchers indicate that a change in CFI less than .01 also supports metric invariance (Byrne, 2010). Assessing the loadings for each group (males and females) demonstrated that each indicator has nearly equivalent magnitude, the same direction, and loads on the same factor. As such, the support for metric invariance allows further examination of invariance between the two groups. Nonetheless, subsequent analyses including invariant scalar and factor covariance revealed that no other forms of invariance could be supported. All of the chi-square difference tests indicated that the models were significantly different from the baseline model. In conclusion, the results indicate that configural and metric invariance was supported.

### *Discussion*

Phase III included another study to further examine and validate the twenty-six items that remained after Phase II. Confirmatory factor analysis was executed in Phase III, and indicated that five items fit poorly to the measurement theory. Therefore, those items were removed and the following analyses were conducted using a twenty-one item measure of wisdom. Evidence substantiated a second-order model of wisdom, such that the paradoxical and experience dimensions were shown to act as formative indicators of wisdom, whereas the remaining dimensions were reflective indicators of wisdom. This measure of wisdom demonstrated acceptable dimensionality, reliability, and validity. Additionally, alternative and equivalent structural models were assessed. Even though equivalent models exist, the hypothesized model maintains a theoretical background that is supportive of its nature. Moreover, nomological, predictive and concurrent validity was established through wisdom predicting or correlating with other theoretically supported constructs. Lastly, invariance assessments indicated support for configural and metric invariance.

## GENERAL DISCUSSION

This research aimed to establish and validate a measure of wisdom that integrated two domains of wisdom in psychology, while also incorporating recent research in the management literature. Moreover, it was the goal to develop a scale of wisdom such that it could be applied in an array of contexts, including managerial or organizational settings.

There were three distinct phases in the research. Phase I indicated that forty-six items should be included to measure wisdom in Phase II. This initial scale was refined in Phase II, in which exploratory factor analysis demonstrated support for six dimensions of wisdom. Moreover, the analysis resulted in a twenty-six item measure of wisdom and provided evidence of nomological validity by relating wisdom to self-monitoring and the core-self evaluations scale. Phase III sought to further refine the scale by using confirmatory factor analysis. The results of Phase III also supported a six dimensional structure and a twenty-one item measure. Additionally, the results offered further evidence of nomological validity. Moreover, Phase III utilized participants that were employed full-time and held managerial positions at various levels.

The above findings should be considered in light of some limitations of this research. First of all, with formative models, all indicators that cause the construct should be included. Likewise, formative models need to be assessed by examining the context in which they are in. In other words, the meaning of formative constructs is often embedded within the other constructs or indicators that form the construct of interest. This research analyzed several different dimensions that may act as formative indicators of wisdom, yet it is possible that other constructs which were not included in the current research form wisdom. Thus, future research should attempt to further determine the constructs that allow wisdom to develop.

Another limitation of this research is that low parameter estimates were attained for both the openness and paradoxical dimensions. Openness has received a large amount of attention and support in the psychology literature; however, the paradoxical dimension has primarily been proposed but not empirically supported in management literature. Thus, even though both dimensions maintain theoretical or empirical support from previous research, further research should attempt further refine these measures to produce higher parameters.

In conclusion, wisdom has maintained the attention of both scholars and laypersons for decades; yet a clear conceptualization of wisdom has not been announced. Wisdom has recently received attention in the management literature; and it has been argued that wisdom relates to leadership, and if the fundamentals of wisdom are understood, managers can be evaluated through sound criteria (McKenna, et al., 2009). The fundamental objective of this research was to establish and validate a universal and multidimensional scale that could be generalized and applied in several settings. Through three phases and two samples, we provide support for the multidimensional scale of wisdom proposed in this research. This measure utilizes the dimensions of experience and paradoxical tolerance as formative indicators of wisdom, and the dimensions of openness, reflective, interactional aptitude, and practical as reflective indicators of wisdom. The authors hope that this research will encourage researchers to further understand the concept of wisdom and how it relates to a management context.

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**APPENDIX**

<b><i>Reflective Dimension Items</i></b>	<b>Included in Phase II</b>	<b>Included in Phase III</b>	<b>Final Scale Item</b>
1. I often think about my past.	X	X	X
2. Recalling earlier days helps me gain insight into important life matters.	X	X	
3. I often recall earlier times in my life to see how I have changed since then.	X	X	X
4. I reminisce quite frequently.	X	X	X
<b><i>Openness Dimension Items</i></b>	<b>Included in Phase II</b>	<b>Included in Phase III</b>	<b>Final Scale Item</b>
1. I believe in the importance of art.	X	X	X
2. I have a vivid imagination.	X	X	
3. I tend to vote for liberal political candidates.	X		
4. I carry the conversation to a higher level.	X		
5. I enjoy hearing new ideas.	X		

6. I am not interested in abstract ideas. (r)	X	X	
7. I do not like art. (r)	X	X	X
8. I avoid philosophical discussions.	X		
9. I do not enjoy going to art museums. (r)	X	X	X
10. I tend to vote for conservative political candidates.	X		
<b><i>Interactional Dimension Items</i></b>	<b>Included in Phase II</b>	<b>Included in Phase III</b>	<b>Final Scale Item</b>
1. I find it easy to put myself in the position of others.	X		
2. I am keenly aware of how I am perceived by others.	X		
3. In social situations, it is always clear to me exactly what to say and do.	X	X	X
4. I am particularly good at sensing the motivations and hidden agendas of others.	X	X	X
5. I am good at making myself visible with influential people in my organization.	X		
6. I am good at reading others body language.	X	X	X
7. I am able to adjust my behavior and become the type of person dictated by any situation.	X		
<b><i>Practical Dimension Items</i></b>	<b>Included in Phase II</b>	<b>Included in Phase III</b>	<b>Final Scale Item</b>
1. I try to look at everybody's side of a disagreement before I make a decision.	X		
2. I believe that there are two sides to every question and try to look at them both.	X		
3. I am usually able to think up creative and effective alternatives to solve a problem.	X		
4. When I make plans to solve a problem, I am almost certain that I can make them work.	X		
5. I trust my ability to solve new and difficult problems.	X		
6. When confronted with a problem, I stop and think about it before deciding on a next step.	X	X	X
7. When making a decision, I weigh the consequences of each alternative and compare them against each other.	X	X	X
8. When I am confused by a problem, one of the first things I do is survey the situation and consider all the relevant pieces of information.	X	X	X
<b><i>Ethical Dimension Items</i></b>	<b>Included in Phase II</b>	<b>Included in Phase III</b>	<b>Final Scale Item</b>
1. I speak out when others violate ethical standards.	X		
2. I conduct my personal life in an ethical manor.	X		
3. I define success not just by results but also the way that they	X		

are obtained.			
4. When making decisions, I ask “what is the right thing to do?”	X		
5. I view sick days as vacation days I deserve.	X		
6. While shopping at the supermarket, it is appropriate to switch price tags on packages.	X		
<b><i>Paradoxical Dimension Items</i></b>	<b>Included in Phase II</b>	<b>Included in Phase III</b>	<b>Final Scale Item</b>
1. Unforeseen events upset me greatly. (r)	X	X	
2. Being uncertain means that a person is unorganized. (r)	X	X	
3. When I am uncertain it means that I cannot go forward. (r)	X	X	X
4. Uncertainty keeps me from having a full life. (r)	X	X	X
5. Uncertainty makes me sad, vulnerable, or unhappy. (r)	X	X	X
6. The ambiguities in life stress me. (r)	X	X	X
<b><i>Experience Dimension Items</i></b>	<b>Included in Phase II</b>	<b>Included in Phase III</b>	<b>Final Scale Item</b>
1. I have experienced many painful events in my life.	X	X	X
2. I have experienced many moral dilemmas.	X	X	X
3. I have lived through many difficult transitions.	X	X	X
4. I have had to make many important life decisions.	X	X	X
5. I have seen much of the negative side of life (e.g., dishonesty, hypocrisy, etc.)	X	X	X

## **Perceived Corporate Ethics and Individual Ethical Decision Making: When in Rome, Doing as the Romans Do**

**Sean Valentine**  
**University of North Dakota**

**Lynn Godkin**  
**Lamar University**

**John Vitton**  
**University of North Dakota**

*The purpose of this study was to explore the degree to which beliefs about corporate ethics are positively related to ethical decision making, operationalized as ethical issue recognition, ethical judgment, and ethical intention. Using a self-report survey containing different ethics measures, information was collected from over 200 individuals employed in different organizations located the south central United States. The findings indicated that perceptions of corporate ethical values were positively related to the different steps of individual ethical reasoning, and that these steps were positively interrelated. Company leaders should develop organizational ethics to prompt ethical reasoning in employees.*

### **INTRODUCTION**

Since the earliest commercial trading, ethics has been a key challenge in business. Throughout history, ethical scandals have been commonplace, including the South Sea Bubble of the 18<sup>th</sup> century, the Yazoo land scheme of 1776, the initial Ponzi scheme that occurred in the 1920s, and the British victory bonds that defrauded individuals following World War I (Owen, 2010). However, it appears that many more ethical infractions have been reported in recent years, particularly in the United States. For instance, organizations such as Adelphia, Arthur Anderson, HealthSouth, ImClone Systems, Merrill Lynch, Tyco, and WorldCom have been involved in ethical scandals, with some of their top leaders facing criminal charges, job loss, and prison time (A Guide to Corporate Scandals, [www.msnbc.com/news/corpscandal](http://www.msnbc.com/news/corpscandal); Dess et al., 2010; Lavelle, 2002; Owen, 2010; Pearce & Robinson, 2009; Thompson et al., 2010, Trevino & Nelson, 2007). Other recent examples of business impropriety include Bernie Madoff's use of an illicit Ponzi financial scheme, which took \$50 billion in charity and retirement contributions from individuals before going defunct in 2008 (Dess et al., 2010), and the U.S., German, and Russian investigation of Hewlett-Packard's alleged use of multi-million-dollar bribes to gain access to the Russian market to sell computer products (Crawford & Searcy, 2010). Perhaps the most widely publicized scandal of the past decade involved Enron, a company that was originally admired for its business practices. In reality, the

company was misrepresenting its financial position, which resulted in a large-scale bankruptcy, a \$64 billion deficit to investors, and a loss of workers' retirement funds (Thompson et al., 2010).

A common underlying theme in these scandals is the lack of a positive organizational culture and leadership that promotes ethics to employees. For instance, a study of 141 top financial professionals indicated that 17% of individuals had their CEOs, over a span of five years, request that they distort company financial information, and 5% had evidently complied (Roman, 2002; Wheelen & Hunger, 2008). A different study found that 53% of individuals working for a variety of firms indicated that they would falsify financial figures if someone in charge encouraged them (Kurlantzick, 2003; Wheelen & Hunger, 2008). The institutionalization of unethical norms is demonstrated particularly in the collective actions of employees. For instance, an investigation "by the Ethics Resource Center of 1,324 employees of 747 US companies found that 48% of employees surveyed said that they had engaged in one or more unethical and/or illegal actions during the past year. The most common questionable behaviors involved cutting corners on quality (16%), covering up incidents (14%), abusing or lying about sick days (11%), and lying to or deceiving customers (9%). Some 56% of workers reported pressure to act unethically or illegally on the job" (Nearly Half of Workers..., 1997, p. 18B; Wheelen & Hunger, 2008, pp. 61-62).

Given the frequency and severity of poor work attitudes and conduct, encouraging employees to connect more positively to the work environment is viewed as a paramount issue, not only from a compliance standpoint, but also from a position of business sustainability. An ethical orientation indeed presents many advantages to professions and organizations, including increased organizational effectiveness, numerous beneficial employee attitudes, and other positive work responses (e.g., Carlson & Perrewe, 1995; Dess et al., 2010; Hunt et al., 1989; Trevino et al., 1998; Valentine & Fleischman, 2008; Valentine et al., 2011). As such, organizations are focusing more readily on corporate governance as a mechanism for managing generalized business and employee ethics:

As the list as the list of companies engulfed in scandal grows—from Enron to Tyco to WorldCom—the revolution is gaining momentum. Top executives who once blithely ignored criticism of their clubby boards are scrambling to institute reforms. Directors whose main contribution to boardroom debate had been golf scores and gossips are returning to the classroom to learn how to read a balance sheet. Compensation committees that routinely awarded massive pay packages to poorly performing CEOs are having second thoughts. And while many official reforms have already been passed following Enron's meltdown, boards are going even further, instituting sweeping changes in their composition, structure, and practices on a scale not seen since skyrocketing executive pay gave birth to the modern governance movement in the 1980s (Lavelle, 2002, p. 245).

Organizations are also interested in developing a work context that encourages employees to perform ethically. Such an environment relies on the ethical position of leaders, the company's written or espoused values, and other positive behavioral norms (Hunt et al., 1989; Trevino et al., 1998; Trevino & Nelson, 2007) and is triggered through several complementary processes.

Some of these processes include the immediate ethical climate (Barnett & Vaicys, 2000; Victor & Cullen, 1988) and organizational ethical culture (Treviño, 1986; Treviño & Youngblood, 1990), which underscore the important components of ethical context (e.g., Kish-Gephart et al., 2010; Valentine & Fleishman, 2008). Ethical climate consists of the "...group of prescriptive climates reflecting the organizational procedures, policies, and practices with moral consequences" (Martin & Cullen, 2006, p. 177), and conduct results from individuals' beliefs about the expectations embodied in behavioral norms and standards (e.g., Barnett & Vaicys, 2000; Martin & Cullen, 2006; Wimbush & Shepard, 1994). For instance, an egositic environment (Victor & Cullen, 1988) that promulgates self-interest among employees is known to increase unethical decision making and behavior (Barnett & Vaicys, 2000; Peterson, 2002; Kish-Gephart et al., 2010). "However, the reverse relationship is found where there is a climate that focuses employees' attention on the well-being of multiple stakeholders, such as employees,

customers, and the community (benevolent climate), or on following rules that protect the company and others (principled climate)” (Kish-Gephart et al., 2010, p. 21). A company’s ethical culture can also influence employee behavior (e.g., Treviño et al., 1998; Treviño & Youngblood, 1990), particularly individuals who score modestly in moral development (Kish-Gephart et al., 2010; Treviño, 1986). Whereas ethical climate is based on broadly-defined principles characterizing the work environment, ethical culture relies on more focused corporate approaches and policies that encourage ethical conduct (Kish-Gephart et al., 2010; Trevino et al., 1998), factors that include reprimanding unethical behaviors, supporting ethical acts, and staffing the firm with ethical leaders (Hunt et al., 1989; Trevino et al., 1998). On the contrary, when “...ethical culture systems such as leadership, norms, and reward policies encourage the achievement of bottom-line goals only, with no attention to ethical concerns, the culture is more likely to support unethical conduct” (Kish-Gephart et al., 2010, p. 7).

There is growing evidence that suggests corporate ethics, spearheaded by the approaches already outlined, leads to increased ethical decision making and fewer problems (e.g., Bartels et al., 1998; Sims & Keon, 1999). Ethical decision making in business is a psychological and behavioral process that involves an employees’ cognitive reaction to an ethical problem experienced in the workplace, a process comprised of four progressive stages that include 1) recognizing an ethical issue, 2) making an ethical judgment in response to the issue, 3) establishing ethical intentions, and 4) behaving in an ethical manner (Jones, 1991; Reidenbach & Robin, 1990; Rest, 1986). Based on key ethics models (see Ferrell & Gresham, 1985; Hunt & Vitell, 1986; Jones, 1991; Rest, 1986; Trevino, 1986; Wotruba, 1990), the theory of planned behavior, which indicates that behavioral intentions are a function of conduct norms and attitudes (Ajzen, 1991), and social learning that occurs during reinforcement processes and interactions with referent others (Trevino, 1986; Trevino & Nelson, 2007), individuals are likely to act ethically when their work environment is ethical. Previous empirical work indeed shows that ethical context, as well as the ethics programs that support such cultures, are associated with increased ethical issue recognition (Barnett & Valentine, 2004; Singhapakdi, 1993; Singhapakdi & Vitell, 1991), ethical judgment (Barnett & Valentine, 2004; Douglas et al., 2001; Nwachukwu & Vitell, 1997; Valentine & Barnett, 2007), ethical intention (Barnett & Valentine, 2004; Gephart et al., 2010; Valentine & Barnett, 2007), and ethical behavior (Gephart et al., 2010; Wimbush et al., 1997). Studies also indicate that the ethical decision-making steps are positively interrelated (Barnett, 2001; Barnett & Vaicys, 2000; Barnett & Valentine, 2004; Fleischman et al., 2007; Valentine & Barnett, 2007). Consequently, there is reason to believe that employees’ perceptions of ethical values should consistently enhance their ethical decision making when problems are experienced. A summary of these relationships is provided in Figure 1, and the following hypotheses are presented:

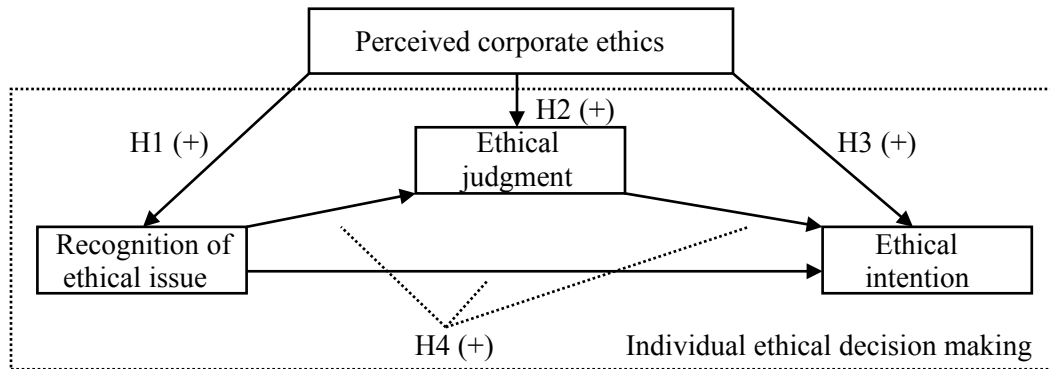
*Hypothesis 1: Perceived corporate ethics is positively related to an individual’s recognition of an ethical issue.*

*Hypothesis 2: Perceived corporate ethics is positively related to an individual’s ethical judgment.*

*Hypothesis 3: Perceived corporate ethics is positively related to an individual’s ethical intention.*

*Hypothesis 4: An individual’s recognition of an ethical issue, ethical judgment, and ethical intention are positively interrelated.*

**FIGURE 1**  
**SUMMARY OF HYPOTHESIZED RELATIONSHIPS**



This investigation is important because the results could help leaders more effectively develop a context that encourages appropriate social learning and conduct. In addition, the results should ideally support the notion that corporate ethics leads to ethical reasoning, which is particularly important given that previous research has been mixed (Loe et al., 2000; O’Fallon & Butterfield, 2005), with some work indicating that ethical context is unrelated to the ethical decision-making process, particularly when other variables are considered (e.g., DeConinck & Lewis, 1997; Paolillo & Vitell, 2002). Finally, this study evaluated three of the four steps of ethical reasoning to provide a more complete picture of the ethical context-ethical reasoning linkage, and a diverse professional sample was utilized to test the hypothesized relationships so that the findings could be generalized to many other occupational groups.

**METHOD**

**Data Collection**

Data was collected from a convenience sample of sales and business professionals employed at different organizations located the south-central region of the United States. Subjects were provided the survey, and some were given extras to distribute to colleagues. Completed surveys were collected either directly from the subjects or through other coordinating individuals. These procedures resulted in a convenience sample of 210 surveys, many of which were completed by individuals involved in sales activities. Slightly over 23% of subjects were sales/marketing managers, 25.2% were sales representatives, 1.5% were vice-presidents of sales/marketing, 30.7% had one of several “other” jobs, 17 of which were sales-based in scope (i.e., written titles included “sales clerk,” “restaurant server/bartender,” “real estate agent,” “cashier,” “outside sales,” “floor sales,” “sales associate,” and “marketing rep”), and 4.5% specified multiple job types with one or more being sales-based. Over 10% of subjects were general managers, 1.5% each were accounting and human resource management professionals, and .5% each were presidents, treasurer/financial professionals, and MIS professionals.

Over 52% of the sample members were women, and 64.1% were white, 21.1% were black, 56.7% were single, and 36.1% were married. Subjects’ average age was 31.34 years, and 62.1% had a high school diploma, 10.7% had an associate’s degree, and 20.9% had a bachelor’s degree. With regard to professional characteristics, 34.7% were supervisors, 79.6% had their companies share an ethics code that governed work conduct, and average position tenure and organizational tenure were 4.47 and 4.50 respectively. Finally, subjects had been provided an average of 8.30 hours of ethics training by their organizations in the last year, and an average of 27.89 hours since being hired.

## Measures

This study utilized measures developed previously in other investigations of business ethics. In addition, an ethics vignette was used to facilitate the evaluation of the individual ethical decision-making process. These ethics measures and the scenario are presented in the Appendix.

Perceptions of corporate ethics were evaluated with a five-item scale developed by Hunt et al. (1989). This “corporate ethical values” measure has been used in past research with great success (e.g., Baker et al., 2006; Douglas et al., 2001; Paolillo & Vitell, 2002; Singhapakdi et al., 1999). Items were evaluated using a seven-point scale anchored by 1 (strongly disagree) and 7 (strongly agree), and higher averaged values showed increased perceptions of ethical values. The scale’s coefficient alpha was .76.

An ethical vignette was used with several scales to evaluate the ethical decision-making process, a procedure utilized in many other studies of ethical reasoning (e.g., Barnett & Vaicys, 2000; LaFleur et al., 1996; Reidenbach & Robin, 1990; Sims & Keon, 1999; Singhapakdi et al., 1996; 1999). The vignette, which was adapted from Dabholkar and Kellaris (1992), required subjects to evaluate the action of purchasing more expensive business tickets from one airline to receive personal frequent flyer miles, instead of purchasing tickets from another airline that provides cheaper rates to the employer. Recognition of an ethical issue was measured with one item that asked respondents to indicate if the vignette contained an ethical problem (Barnett & Valentine, 2004; Fleischman et al., 2007; Valentine & Barnett, 2007). Opinions were disclosed on a six-point semantic differential scale with higher scores indicating increased ethical issue awareness. Ethical judgment was evaluated with four six-point semantic differential scales items that assess “moral equity” (Reidenbach & Robin, 1990), and after averaging item values, higher scores indicated an increased judgment that the behavior described in the vignette was unethical. The coefficient alpha of this measure was .93. Finally, ethical intention was measured with four six-point semantic differential scales (e.g., Barnett & Valentine, 2004; Fleischman et al., 2007; Valentine & Barnett, 2007), and after reverse coding two items and averaging values, higher scores showed an increased intention not to act in a questionable manner. This measure had a coefficient alpha of .89.

A number of control variables were included in the analysis to evaluate the impact of individual and organizational characteristics. Sex (1 = male, 2 = female), education (1 = high school diploma, 2 = Associate degree, 3 = Bachelors degree, 4 = Masters degree, 5 = Doctoral degree, 6 = Law degree (JD), 7 = Medical degree (MD), 8 = Other \_\_\_\_\_), supervisor status (1 = no, 2 = yes), and job tenure (in years) were specified as individual controls, and ethics training provided since being hired (in hours) and a sharing an ethics code (1 = no, 2 = yes) were specified as organizational controls. A 10-item social desirability scale (see Crowne & Marlowe, 1960; Fischer & Fick, 1993; Strahan & Gerbasi, 1972) was also used to account for subjects’ impression management on the survey (Randall & Fernandes, 1991). Sample items from this scale include “I never resent being asked to return a favor” and “I have never been irked when people expressed ideas very different from my own.” Items were rated on a two-point scale comprised of 1 (False) and 2 (True), and after coding five statements in reverse, item scores were added together so that higher scores (range of 10 to 20) indicated increased social desirability.

## Analysis

Descriptive statistics and correlations were evaluated to determine the relative magnitude of the focal variables, as well as the relationships among these factors. Multiple hierarchical regression models were then used to test the study’s hypotheses. The control variables were entered into the models first, followed by the different steps of ethical reasoning and corporate ethical values.

## RESULTS

### Variable Descriptive Statistics and Correlation Analysis

The mean scores for recognition of an ethical issue ( $M = 3.97$ ,  $SD = 1.92$ ), ethical judgment ( $M = 3.90$ ,  $SD = 1.64$ ), and ethical intention ( $M = 4.23$ ,  $SD = 1.55$ ) suggested that subjects responded to the problem in a moderately ethical manner. The mean score for corporate ethical values ( $M = 5.03$ ,  $SD = 1.28$ ) indicated that subjects believed that their organizations were relatively ethical. Finally, the mean

score for social desirability ( $M = 16.05$ ,  $SD = 2.12$ ) implied that subjects' impression management was modest. Examination of the bivariate correlations among the demographic variables indicated that being female was negatively related to supervisor status ( $r = -.16$ ,  $p < .05$ ), and that being a supervisor was positively related to hours of ethics training ( $r = .17$ ,  $p < .05$ ) and perceived corporate ethical values ( $r = .17$ ,  $p < .05$ ). Position tenure was also positively related to ethical judgment ( $r = .16$ ,  $p < .05$ ) and ethical intention ( $r = .24$ ,  $p < .01$ ). With regard to the focal variables, perceived ethical values were positively related to recognition of an ethical issue ( $r = .29$ ,  $p < .001$ ), ethical judgment ( $r = .29$ ,  $p < .001$ ), and ethical intention ( $r = .33$ ,  $p < .001$ ). These findings suggest that corporate ethics is a key lever for increasing ethical decision making. Recognition of an ethical issue, ethical judgment, and ethical intention were positively interrelated ( $r = .39$  to  $.57$ ,  $p < .001$ ), which provides additional empirical support for the multi-stage ethical decision-making model (Jones, 1991; Rest, 1986). Social desirability was positively related to position tenure ( $r = .15$ ,  $p < .05$ ), ethical judgment ( $r = .17$ ,  $p < .05$ ), and ethical intention ( $r = .29$ ,  $p < .001$ ), so the measure was included as a control in the hierarchical regression analysis.

### **Hierarchical Regression Analysis**

Table 1 provides a summary of the hierarchical regression analysis. The control variables were entered into the first regression model, which did not result in a significant change in R-square. The corporate ethical values variable was entered into the model next, which resulted in a significant change in R-square, and perceived ethical values were associated with increased recognition of an ethical issue. The control variables were entered into the second regression model, which once again did not result in a significant change in R-square. Recognition of an ethical issue was entered into the model next, resulting in a significant change in R-square, and the variable was associated with increased ethical judgment. Finally, corporate ethical values was entered into the model, which caused a significant R-square change, and perceived ethical values were associated with increased ethical judgment. The control variables were entered into the third regression model, which caused a significant change in R-square. Position tenure and social desirability were positively related to ethical intention. Recognition of an ethical issue was entered into the model, which caused a significant R-square change, and the variable was associated with increased ethical intention. Ethical judgment was then entered into the model, resulting in a significant change in R-square, and judgment was associated with increased ethical intention. While not shown in Table 1, recognition of an ethical issue was not related to ethical intention in the presence of ethical judgment, indicating that the relationship between recognition and intention was fully mediated by judgment. Finally, including corporate ethical values caused a significant change in R-square, and ethical values were associated with increased ethical intention. These findings supported Hypotheses 1-4.

**TABLE 1**  
**RESULTS OF HIERARCHICAL REGRESSION ANALYSIS**

Dependent variable	Recognition of ethical issue	Ethical judgment	Ethical intention
Independent variable(s)	$\beta$	$\beta$	$\beta$
Sex <sup>a</sup>	-.11	-.01	.01
Education <sup>b</sup>	.02	.04	.00
Supervisor <sup>c</sup>	-.06	-.09	.07
Position tenure <sup>d</sup>	.11	.15	.19 *
Ethics training <sup>e</sup>	.07	-.02	.04
Shared ethics code <sup>c</sup>	.12	.06	-.04
Social desirability	.09	.16	.26 **
	Step 1 $\Delta R^2$	.06	.13 **
Corporate ethical values	.27 **		
Recognition of ethical issue		.50 ***	.36 ***
	Step 2 $\Delta R^2$	.07 **	.12 ***
Corporate ethical values		.17 *	
Ethical judgment			.48 ***
	Step 3 $\Delta R^2$	.02 *	.16 ***
Corporate ethical values			.14 *
	Step 4 $\Delta R^2$		.02 *
Model <i>F</i>	2.61 *	7.43 ***	10.90 ***
Adjusted <i>R</i> <sup>2</sup>	.08	.27	.39
<i>N</i>	155	155	155

\*\*\*  $p < .001$ ; \*\*  $p < .01$ ; \*  $p < .05$ ; <sup>a</sup> 1 = male, 2 = female; <sup>b</sup> 1 = high school diploma, 2 = Associate degree, 3 = Bachelors degree, 4 = Masters degree, 5 = Doctoral degree, 6 = Law degree (JD), 7 = Medical degree (MD), 8 = Other \_\_\_\_\_; <sup>c</sup> 1 = no, 2 = yes; <sup>d</sup> In years; <sup>e</sup> In hours.

## DISCUSSION

The results indicated that perceived corporate ethics was positively related to individual ethical decision making. More specifically, after controlling for the effects of different individual and organizational factors, perceived ethical values were associated with increased recognition of an ethical issue, ethical judgment, and ethical intention. Given the presence and magnitude of these relationships, businesses need to concentrate on building corporate ethics as a key mechanism for enhancing the individual ethical decision-making process, a reaffirmation that organizations should be proactive (rather than reactive) in the management of ethics. In addition, the steps of the ethical decision-making process were positively interrelated, which provides further support for the notion that the different stages increase subsequent steps of reasoning (Rest, 1986). These results and insights generate several noteworthy managerial implications.

In an effort to encourage ethical reasoning among employees, organizations should focus on building the workplace characteristics that are known to enhance corporate ethics. For instance, a concerted effort should be made to identify and promote managers who advance the ethical values of the firm (Ferrell et al., 1998; Hunt et al., 1989; Trevino, 1986; Trevino et al., 1998). Raytheon's former head, Dan Burnham, indeed proclaimed that "What do we look for in a leadership candidate with respect to integrity? What we're really looking for are people who have developed an inner gyroscope of ethical principles" (Dess et al., 2010, p. 414), and using information compiled from the 2002 Study of the Changing Workforce, Prottas (2008) found that the management integrity did positively influence many important work outcomes such as satisfaction, stress, and absenteeism. Leadership should also consistently reward ethical acts and admonish inappropriate conduct to encourage desirable workplace behaviors to reinforce positive business values (Ferrell et al., 2008; Trevino & Nelson, 2007; Trevino & Youngblood, 1900).

Other practical examples demonstrate the importance of ethical leadership. General Electric CEO Jack Welch and his replacement Jeffrey Immelt developed an organizational environment based on ethical values, and managers are expected to embody these principles. "Jeffery Immelt begins and ends each annual meeting of the company's 220 officers and 600 senior managers with a recitation of the company's fundamental ethical principles. Immelt and GE's other managers are careful to not violate these principles themselves or give implied consent for others to skirt these principles..." (Heineman, 2007; Thompson et al., 2010, p. 311). Many firms also employ ethics and compliance officers to function as ethics administrators and figureheads (Ferrell et al., 2008; Trevino and Nelson, 2007). For example, the global aerospace firm United Technologies, has staffed the organization with over 150 oversight officers to manage the corporate ethics code, a document that has been utilized since 1990 (Hill, 2009). "United Technologies also established an ombudsperson program in 1986 that lets employees to inquire anonymously about ethics issues. The program has received some 56,000 inquiries since 1986, and ombudspeople have handling 8,000 cases" (Hill, 2009, p. 145).

Additionally, organizations need to develop programs that augment an ethical context. In particular, ethics codes are "a primary or salient component of ethical culture," and "...existing evidence supports the idea that an organizational code of conduct reduces the incidence of unethical choices" (Kish-Gephart et al., 2010, p. 7). Previous research indicates that such codes can enhance company ethics (Adams et al., 2001; Valentine & Barnett, 2002) and the ethical decision-making process (Douglas et al., 2001; McCabe et al., 1996). Ethics training can also be used to teach employees important ethical values that shape work behaviors, primarily because ethics training increases organizational ethics (Valentine & Fleischman, 2004) and ethical reasoning (Delaney & Sockell, 1992; Loe & Weeks, 2000) in a manner similar to ethics codes. For example, Texas Instruments, the electronics producer known for its ethical leadership and policies (Ferrell et al, 2008), utilizes an extensive ethics code, booklets, and other training materials such as an "ethics quick test" to teach employees ethics ([www.ti.com/corp/docs/company/citizen/ethics/...](http://www.ti.com/corp/docs/company/citizen/ethics/)). TI has also received numerous ethics rewards that recognize the firm for its outstanding corporate social responsibility (<http://www.ti.com/corp/docs/company/awardfactsheet.shtml#citizenship>).

This study had several noteworthy limitations that should be mentioned. For instance, all information was collected with a self-report questionnaire, which can lead to common method bias. In addition, a convenience sample was utilized in this investigation, and the absence of individuals who did not complete (or were not approached to complete) the survey could have confounded the results with nonresponse bias. The study's design was also cross-sectional in nature, which diminished the interpretation of causal results. While the sample was fairly diverse, the findings should only be generalized to the professional populations represented in the study, limiting external validity. Additionally, some of the focal variables were related to social desirability, which could have biased the findings; however, this concern was mitigated somewhat by controlling for impression management in the hierarchical regression analysis. Finally, only one perceptual measure of ethical context was used, and obtaining a broader, more objective picture of corporate ethics might have yielded different results.

Future research should address these limitations by obtaining information from individuals working in different professions, organizations, and geographic regions. Varying data collection approaches should also be used to reduce the likelihood of common method bias. Further, new studies should use both

objective and subjective measures of ethical context to more comprehensively evaluate how the work environment affects employees. Future investigations of the practical connections between corporate ethics and ethical decision making should facilitate more effective ethics management.

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**APPENDIX**

**MEASURES AND ETHICS VIGNETTE**

**Corporate Ethical Values**

1. Managers in my company often engage in behaviors that I consider to be unethical. (R)
2. In order to succeed in my company, it is often necessary to compromise one’s ethics. (R)
3. Top management in my company has let it be known in no uncertain terms that unethical behaviors will not be tolerated.
4. If a manager in my company is discovered to have engaged in unethical behavior that results primarily in *personal gain* (rather than corporate gain), he or she will be promptly reprimanded.
5. If a manager in my company is discovered to have engaged in unethical behavior that results primarily in *corporate gain* (rather than personal gain), he or she will be promptly reprimanded.

**Ethics Vignette**

An organization that needs its employees to travel for work has negotiated a special rate with airline A—a 35% discount between designated cities—and encourages its personnel to use that airline whenever possible. Frank, an employee with the firm, prefers to use airline B because of their frequent flier program (which allows him to earn free personal trips). In some cases, Frank has booked on airline B even though the tickets cost up to \$200 more than similar flight on A, just so he could “rack up those frequent flier points.”

**Recognition of Ethical Issue**

Do you believe that this situation involves an ethical issue or problem?

Completely disagree it \_\_\_\_\_ Completely agree it \_\_\_\_\_  
 involves an ethical issue involves an ethical issue.

**Ethical Judgment**

Next is a set of adjectives that allow you to evaluate the situation described above.

1. Fair \_\_\_\_\_ Unfair
2. Just \_\_\_\_\_ Unjust
3. Morally right \_\_\_\_\_ Not morally right
4. Acceptable to my family \_\_\_\_\_ Unacceptable to my family

**Ethical Intention**

How likely is it that you would engage in the employee’s actions described in the situation?

1. Likely \_\_\_\_\_ Unlikely
2. Improbable \_\_\_\_\_ Probable (R)
3. Possible \_\_\_\_\_ Impossible
4. Definitely would not \_\_\_\_\_ Definitely would (R)

(R) = reverse coded

# **The H Factor: A Behavioral Explanation of Leadership Failures in the 2007-2009 Financial System Meltdown**

**Charles F. Falk**  
Northeastern Illinois University

**Bruce K. Blaylock**  
Radford University

*To date, several technical analyses offer causality for the 2007-2009 “Great Recession.” This work offers a different perspective by applying behavioral analysis of the actions taken by the relatively small number of leaders in the middle of the maelstrom. Using a behavioral construct called the “H Factor,” the researchers examined how a sample of key players scored on the negative traits of hubris, hypocrisy, and hostility; and on the positive traits of honor, humility, and honesty. The researchers posit that those choosing leaders for key positions could benefit by evaluating candidates through a prism of an H Factor-based analysis.*

## **INTRODUCTION**

No one living anywhere in the modern world in 2007-2009 could be unaware of the dramatic, and seemingly-sudden, disintegration of the financial and economic system in the United States. In this period, now referred to as “The Great Recession,” several iconic businesses and financial houses went bankrupt while others lost most of their market capitalization. As a by-product of these seismic shifts, jobs have been lost by the millions; unemployment has soared; personal wealth has been decimated as homes lost significant value and 401K’s and other retirement and investment vehicles lost half or more of their value. The hopes and dreams of countless individuals and families have been altered, perhaps irretrievably, as job losses altered career aspirations and financial losses changed the trajectories of plans for retirements; children’s educations; home purchases; small business expansions; and other daily, but significant decisions.

The nature of the crisis is captured in part of a “Letter to Shareholders” of JP Morgan Chase & Co, sent to them by company Chairman and CEO, Jamie Dimon, one of a few financial executives to have avoided some of the mire during the disintegration. Dimon wrote about “The gathering Storm (that) arrived with a vengeance...”

“In 2008, Bear Sterns collapsed; Lehman Brothers declared bankruptcy; Fannie Mae and Freddie Mac were placed into government conservatorship; the government assumed ownership of AIG; Merrill Lynch sold itself to Bank of America; Wells Fargo took over a struggling Wachovia; IndyMac and WaMu went into receivership by the Federal Deposit Insurance Corporation; Countrywide and the U.S. Mortgage business virtually collapsed;

the two remaining major investment banks, Goldman Sachs and Morgan Stanley, became bank holding companies; around the globe, French, British, Swiss and German banks were rescued by their governments; and the world entered the sharpest, most globalized downturn since the Great Depression.” (Dimon, 2009).

When a nation experiences a calamity like the “The Great Recession” scholars, practitioners, and others will dissect the event to 1) find out what happened, 2) explain why things happened as they did, and 3) to recommend changes that may assure that the problems will not be repeated in the future. There is a growing body of literature contributing to these three objectives. The aim of this paper is to provide a different point of view that will add to or complement the work that has already been done.

## WHAT HAPPENED?

There is no shortage of explanations offered about the cause of the financial crisis:

- Imprudent Mortgage Lending - Murphy (2008) suggests low interest rates and relaxed lending standards motivated people to purchase houses they could not afford.
- Bursting of the Housing Bubble - When unsustainable prices began to fall, borrowers and lenders were faced with financially infeasible choices: continue paying (or supporting) a loan far in excess of the value of the asset, or walk away from the asset to cut the losses (LaBonte, 2007).
- Mark-to-Market Accounting – Fair value accounting standards require an asset to be valued at the current market price. In 2007 and 2008 as the market value of mortgages began to drop, financial institutions began to recognize substantial losses on their balance sheets. These losses, in turn, further eroded market confidence and intensified systemic problems in the banking industry (Gross, 2008).
- Community Reinvestment Act (CRA) – If one were strictly looking at dates of actions that may have influenced the financial crisis, the Community Reinvestment Act would probably be the oldest. Enacted in 1977 and further amended during the Clinton and Bush presidencies, the noble intent of the CRA was to make housing affordable to as many people as possible. Unfortunately, many of the clauses, including “no money down” and virtual elimination of credit histories, combined with Freddie Mac and Fannie Mae’s politically mandated affordable housing goals, led to high risk lending practices with the predictable consequences (White, 2008; Carney, 2009).
- Greed - Columnist, David Brooks was among the first to see the...“fiasco as a product of greed.” He also attributed “stupidity” as the other root cause. (Brooks, 2009). Lo (2009) addressed the issue more academically stating, “Financial crises are unavoidable when hardwired human behavior – fear and greed, or ‘animal spirits’ – is combined with free enterprise, and cannot be legislated or regulated away.” Morgenson and Rosner (2011) eviscerate several people who were major players during the financial crisis and attribute their behaviors and actions directly to greed and over ambition. We will argue later that those who cross the line between ambition into greed have a behavioral flaw, which promotes that tendency.
- The government treatise - “The Financial Crisis—Inquiry Report” (January, 2011) summarizes the causes the “Great Recession” as the interaction of several events: the collapse of the housing bubble fueled by low interest rates, easy and available credit, scant regulation, and toxic mortgages.

Historians are still debating what caused the Great Depression, so it is not likely that the identification of a singular cause or a set of interactive occurrences will settle arguments about the causes of the Great Recession anytime in the near future. The authors of this paper acknowledge that each of these areas and perhaps several more as described by Jickling (2009), Weisberg (2010), or Becker (2011) contributed in some degree to the collapse of the financial system and the resultant decline in the nation’s economy, but this paper offers an added perspective. None of the above reasons just happened--behind each reason is a

decision, or decisions, made by an individual or individuals. As stated in *The Financial Crisis—Inquiry Report* (2011), “The crisis was the result of human action and inaction...ignored warnings and fail(ure) to question, understand, and manage evolving risks within a system essential to the well-being of the American public.” Those involved were in every case in positions of power. Therefore, we suggest that the current problems with the financial system and our economy have many of their roots in an area not discussed in the literature: leadership, or more precisely the failures of leadership in a number of different, but highly inter-related spheres. We will attempt to explain WHY things happened through a lens of leadership we call the “H-Factor,” but first a defense of the theoretical basis for our work and an explanation of the research methodology.

## **LEADER BEHAVIOR AND LEADER TRAITS**

With all the pedigreed educational backgrounds and with all of the experiences major players in the financial crisis had, the most salient question is, “How could so many of them go so wrong in leading and making decisions concerning their organizations?” This is the proverbial “Sixty-four dollar question” or, perhaps in the current environment, that should be re-cast as the proverbial “Six point four trillion dollar question,” since that is the amount of added debt our country has taken on, in part, to attempt to solve the financial crisis. A potential answer to this question may be found through an examination of personality and behavioral characteristics of a representative number of these players. We suggest that it is not the objective qualities of the key players but, instead, it is behavioral or subjective characteristics about or within these individuals that can explain what has gone wrong.

“Personality predicts leadership—who we are is how we lead—and this information can be used to select future leaders or improve the performance of current incumbents (Hogan, 2004).” Personality and traits as a modifier or explainer of leadership has had an up, down, and back up presence in the literature. In its most recent resurgence, researchers have explored the impact of charismatic leadership (House & Howell, 1992), Emotional Intelligence (Goleman, 1998), and implicit leadership theories (Lord & Maher, 1991) on leader effectiveness and decision making. These approaches recognize personality as a combination of traits that affect behavior and help predict the decisions a leader will make.

One strength of personality and observable personal behaviors as an explanatory variable of leaders behavior is the degree to which observers’ judgments agree. When making judgments about a person’s social reputation through public information that can be easily verified, there is high level of agreement when describing behavioral patterns (Curphy, 1998; Hogan, 1992; and Nilsen, 1995). It is these behavioral patterns that we assess and use to draw conclusions about individuals involved in the financial crisis.

## **RESEARCH METHODOLOGY**

Through publically available information in popular and business press, board reports, and interviews of key players associated with some of the businesses and GSEs, most of whom required anonymity for an interview, we identified one or more observable traits that we believe influenced their decision making. The aim in gathering and analyzing the information was to examine the personality and behavioral patterns of these people for predictive value. Clearly, administering personality tests to these key players would have been preferable to the qualitative approach taken; however, this was neither practical nor possible.

Our research approach is not unique. Examination of popular press and public documents as a research methodology has been used by others. Hayward and Hambrick (1997) and Malmendier and Tate (2003) used annual reports and press releases as methods to assess “core self evaluation” of CEOs. Amernic and Craig (2006) found public pronouncements to be a useful way to examine leaders’ reputations or personalities. Our approach mimics those studies.

## WHY THINGS HAPPENED: A BEHAVIORAL EXPLANATION THROUGH THE H FACTOR

The “H Factor” is a behavioral construct inspired from an examination of characteristics of key players in the Great Recession. Coincidentally, the qualities and characteristics identified all involved words that begin with the letter H. Public documents evinced the presence or absence of hubris, hypocrisy, hostility, honor, humility, and honesty; thus, the H Factor is a form of rating about leadership quality. Long ago, McGregor (1960) created the original short-hand description of leadership profiles by applying his “Theory X” and “Theory Y” construct to them. The H Factor is offered in the same spirit as yet another way of trying to explain the behavior of leaders.

### Hubris

J. Rufus Fears defined hubris as, “Outrageous arrogance that inflicts suffering upon the innocent (Fears, 2005).” Collins in his recent book, *How the Mighty Fall* (2009), identifies hubris as the first stage of the decline of an organization. The stage is characterized by leader arrogance, belief that success is an entitlement, and blindness to the important factors that made the organization successful and great to begin with (Collins, 2009).

Confident leaders generally achieve more than their timid counterparts (Bass, 1990). But, an excess of confidence can lead to excessive risk-taking, grandiose initiatives, intimidation, and an altering of the moral compass (Hayward and Hambrick, 1997; Van Velsor and Leslie, 1995). In a recent study examining the effect of power, researchers found that the more power an executive had, the less likely they were to take advice (See, et al, 2011).

Hubris may be the source of illogical decisions which may lead to corporate or government policy mistakes, which in turn can harm a company’s employees or a government’s citizens. Hubris blocks informational input and causes decision makers to act on their excessive pride, fail to get the right help, fail to evaluate the reality of a of a business or government action, and fail to face the consequences of a mistaken policy or action (Hayward, 2007).

Examples of leadership hubris that came to light in the current crisis are nearly endless. John Thain, the ousted CEO of Merrill Lynch, thought nothing of spending \$1.2 million, in the midst of the financial meltdown, on remodeling his personal office. Thain’s problems and image became more problematical when he approved an early payment of bonuses to Merrill executives before Merrill was forced to merge into Bank of America. The latter action created the impression that Thain was trying to sneak something through before the merger that he knew would not be approved after the merger. The fact that Thain had no clue about how his action would be perceived speaks volumes about the level of hubris that surrounded him, and his inability to recognize the consequences of his actions taken on behalf of the company.

James Cayne, the CEO of the then deeply-troubled Bear Stearns left his office by helicopter for long golf weekends and was regularly out of town at bridge tournaments (Gibbs, 2009). Mr. Cayne was completely out of the picture in what the *Wall Street Journal’s* Kate Kelly (2008) described as “The last 72 hours of Bear Stearns.” It was senior executive, Alan Schwartz, that cobbled the deal with J.P. Morgan Chase CEO, Jamie Dimon, that merged Bear Stearns into J.P. Morgan Chase. (Kelly, 2009). Mr. Cayne’s hubris prevented him from evaluating the reality of his business’s problem as he left others to deal with issues while he indulged his own ego.

At AIG, executives continued to spend lavishly as if the company wasn’t in any kind of trouble at all even though they had just accepted a large bailout package from the federal government. No effort was made to cut significant spending on conferences for staff and customers that were offered at swank resorts. When the spending plans became public and taxpayers became outraged, AIG CEO, Edward Liddy, asserted that the expenditures to vital to the sustainability of the firm. To him, it was essential that the morale of those who produced business for the firm should be maintained. He was probably right, but defending that position in the glare of the lights of a TV camera became impossible to do. Mr. Liddy’s hubris failed to accurately assess the consequences of his policy of excessively rewarding employees.

Posner takes former President George W. Bush to task for exhibiting a non-monetary facet of hubris when he wrote: “The lame duck President seemed uninterested in and uninformed about economic matters and was unable to project an image of leadership and, instead, spent his final months in office in frequent trips abroad and in legacy-polishing while the domestic economy melted away.” (Posner, 2009)

In each of the above examples, leader hubris either induced an unachievable grandiose plan or prevented the leader from seeing the consequences of their actions. Had hubris not been a dominant personality characteristic, Mr. Thain might not have approved investment in high risk collateralized debt obligations, Mr. Cayne might have recognized the perilous position of his company before it arrived at the edge of the precipice, Mr. Liddy would not have perpetuated the culture of ignoring downside risk as they did with their credit default swaps products which were far more risky than traditional insurance products, or Mr. Bush would have instituted more aggressive economic policies earlier that may have mitigated the depth of the crisis. Regardless of one’s belief about which one or combination of decisions led to the financial crisis, individual decisions contributing to the crisis were initiated by an individual whose decision making ability was impaired by hubris.

### **Hypocrisy**

Hypocrisy exists when there is a conflict between organizational values and leader behavior. Hypocrisy is exhibited when one professes beliefs, feelings, or virtues that they do not hold or possess. For leaders this means holding others accountable for one set of criteria and standards while holding themselves accountable to another. They often invoke values or higher ideals, e. g. “We value people,” “We support equity and openness,” etc. as part of their compelling vision for an organization (Boal & Bryson, 1988; Conger & Kanungo, 1998), but when employees see behaviors from leaders incongruent with the corporate values, they attribute it to hypocrisy. Cha and Edmondson (2006), one of the few empirical studies done on hypocrisy, developed a theoretical model showing how hypocrisy by the leader produces disenchantment within the organization. This disenchantment can lead to organizational poor performance, suboptimal decisions, because it creates a culture where decision makers do not believe they are accountable.

Brunsson (2002) describes hypocrisy as “...any practices or policies not based in reality.” Under that description hypocrisy was present in a wide spectrum of actions leading up to the Great Recession. Loan officers that assured borrowers that there was nothing unusual about how their applications would be handled and that they were people who should expect to perform at expected levels when it came to their role as borrowers. Yet, the loan officers knew differently. Bankers bundled mortgages and passed them on as investment opportunities claiming that they posed no more than normal levels of risk. Yet, the bundlers knew differently. Barney Frank and Christ Dodd assured Congress that there was nothing wrong with Fannie Mae or Freddie Mac as they imposed larger investments in sub-prime mortgages; and who asserted that those with congressional oversight for those agencies really “had the taxpayers’ backs.” Yet, they knew better.

Posner (2009) provides an example of hypocrisy from former Federal Reserve Board Chairman, Alan Greenspan’s support of policies that were contributory to the economic downturn. Greenspan was aware that propping up stock prices by keeping interest rates low would fuel borrowing, which could lead to a destabilized financial system, even though the Fed’s mission contains the phrase, “...maintaining stability of the financial system and containing systematic risk that may arise in financial markets...” (Board of Governors of the Federal Reserve, 2009). That boom created the demand for sub-prime mortgages, reckless securitization, and credit default swaps sold by American International Group. Under these circumstances, there was no stupidity because “...everyone knew what exactly what they were doing. The home buyers knew that they were borrowing too much. The lenders knew that they were getting people in over their heads, and the Wall Street financiers knew that the bonds collected from dubious mortgages were not really safe” (Posner, 2009).

Commercial rating agencies, such as Moody’s Investors Service and Standard & Poors, evaluate and rate investment instruments and vehicles. The function of these agencies is to engage in due diligence and to offer guidance to investors about the quality of investment opportunities. Investors rely almost

exclusively on ratings to guide securities valuation (Moyer, 2005). Rating agencies; however, make most of their money by issuing credit ratings for debt securities paid for by the company raising the debt, and therein lies the problem. While investors may be the users of rating agency information, the companies being rated pay for the service. Just a few months prior to their economic collapse, Freddie Mac, Fannie Mae, Bear Sterns, and Lehman Brother's all received investment grade ratings. Moody's mortgage security model did not include information about a borrower's debt-to-income ratio, a ratio they knew had a high predictive value with respect to a borrower's ability to repay (Morgenson, 2011). It was only after each of these organizations began seeking corporate life saving funds that they were downgraded by two or three levels.

### **Hostility**

Hostility refers to a set of negative attitudes, beliefs, and appraisals of the worth, intent, and motives of others and often includes a desire to preemptively harm or see harm inflicted on others (Smith, 1992, 1994). The motivational aspect of anger impacts an individual's judgment by motivating them to make decisions that will try and change the situation, remove the problematic components, and re-establish the situation that existed prior to the offense (Lerner & Tiedens, 2006).

James Johnson, former CEO of Fannie Mae, according to a former government official who worked with him, was "...the designer of cultural obstinance....Take on your regulator, go to the hill, use your muscle." (Morgenson, 2011). Fannie Mae's executive compensation plan prior to Mr. Johnson's arrival, was based on a wide range of metrics including cost control and return on assets. Mr. Johnson created an executive pay plan based entirely on earnings growth, which predictably led to poor decisions about loan risk (Morgenson, 2011). His hostility with regulators and Congressional Committees was driven by his need to remove the problems he perceived regulators were causing in his growth plans for Fannie Mae—he needed to protect that system, the status quo. Taking such an aggressive stance with regulators probably delayed their eventual findings that Fannie Mae was using questionable accounting practices and was teetering on the edge of bankruptcy.

As the Chairman of the U.S. Senate Committee on Banking, Housing, and Urban Affairs, Connecticut's former Senator, Christopher Dodd had a large influence on banking regulations and its business environment. His position placed him in contact with many banking executives, one of which gave him a mortgage loan with much more favorable rates than typically offered to customers (Countrywide's Many Friends, 2008). When asked about favorable treatment he may have received on personal mortgages he received from the failed Countrywide Mortgage, he consistently refused to provide documents that would affirm his innocence. (Chris Dodd's Irish Cottage, 2009). His hostile reaction to the inquiry and refusal to accept responsibility for his actions eventually led to his decision not to seek re-election, but more importantly his hostility altered his judgment about the riskiness of decisions he was making and regulations he was proposing.

Emotions, especially anger and the hostility that accompanies it, can cause individuals to increase their commitment to a failing plan (Tsai & Young, 2009). Both Johnson and Dodd exemplified this characteristic when they clung to positions to which they had emotionally committed. Their hostility prevented them from seeing the risk associated with their decisions.

### **Honor**

Thus far, all of the components of the H Factor discussed have been demonstrated to have negative impact on leadership and decision making. We now turn our attention to positive components of the H Factor. Honor is principled uprightness of character—personal integrity. It involves demonstrating respect for the values of others, organizations, individuals, social or community conventions, and a consistency of actions necessary to personify that respect. Honor is almost the opposite of hypocrisy.

Honor is typically codified by canons of the profession or codes of ethical behavior. Lawyers in every state promise to abide by the Rules of Professional Conduct of the state in which they practice and can face disbarment if they do not. Public accountants are guided by the American Institute of Certified Public Accountants' Code of Professional Conduct and Generally Accepted Accounting Principles

(GAAP). Registered investment advisors must adhere to the Securities and Exchange Commission's "Investment Advisor Codes of Ethics."

Most businesses have written, and often posted, statements of values and standards of work behavior. Honor impacts the decision process by instilling a positive atmosphere of consistent ethical behavior rather than an unwanted constraint imposed by laws or societal norms. Consistent honorable behavior shapes the opportunities faced by the organizations and the alternatives they are willing to consider in all decision-making processes.

It would be foolish to suggest lapses in honor caused the Great Recession, but some of the actions were so egregious, they certainly contributed to the uncertainty surrounding the event. Lawyer Mark Dreier pled guilty to conspiracy, securities fraud, money laundering, and five counts of wire fraud in a scheme to sell \$700 million in fictitious promissory note (Bray, 2009). Clearly Dreier's actions were well outside of the bounds of the law and of the oath that lawyers take when they are admitted to the bar. By many accounts, David Friehling a principal in the CPA firm, Friehling & Horowitz, that long audited Bernard Madoff Investment Securities, is the "nicest of guys (Abkowitz, 2008)." However, Mr. Friehling currently awaits sentencing for failure to abide by the AICPA Code of Ethics by not conducting appropriate audits of Mr. Madoff's business. His lack of honor has placed other major accounting firms in jeopardy because as auditors of the feeder funds, they relied on the accuracy of Mr. Friehling's audit statements.

The law profession, the accounting profession, and the financial investment profession all have codes of ethics to guide professional behavior. It is up to individual firms to assure adherence to these guides through consistent honorable actions. Failure to show honor to their professions led to disastrous consequences in the above examples. But did honorable behavior contribute to the avoidance of the financial maelstrom. We can think of one excellent example.

BB&T is the 10<sup>th</sup> largest bank in the country. It ranks no worse than 7<sup>th</sup> in market share in deposits in all markets it serves. Like virtually all financial institutions, it has a code of ethics, but unlike most financial institutions, BB&T also has a set of ten core values that drives all of its decisions. John Allison, former Chairman and Chief Executive Officer led BB&T through honor and consistency by recognizing the "fast growth" models of sub-prime lending did not fit with BB&T's core values. He honored the values set by the original founders of the bank and carefully protected its assets by avoiding higher return, but much riskier bank investment strategies. Mr. Allison even met with Congress over a period of seven or eight years trying to warn them about the impending financial collapse of Freddie Mac and Fannie Mae. He readily acknowledged the nobility of making housing affordable to a wide number of people, but was equally adamant about the unsustainability of the endeavor as it was being carried out. Had Congressional leaders listened to Mr. Allison and other members of the Financial Roundtable, had Congressional leaders been honorable and consistent in their fiduciary responsibilities with respect to Freddie and Fannie, perhaps the financial crisis would have been averted (Discussion with executive in the Federal Housing Finance Agency 09/22/2011 who wishes to remain anonymous).

## **Humility**

There are many leaders who think leading is about taking charge, having authority or being in a position to tell others what to do or to win influence over others because of self accomplishment. That is not leadership, it is power, and they are two very different things. Humility is the opposite of hubris. "Humility is a human virtue that reflects a relatively stable character trait (Vera & Rodriguez-Lopez, 2004). Collins (2001) determined that consistently high performing organizations were led by "Level 5" leaders who had a blend of personal will and humility. He further found these organizations were often the benchmark performer in the industry; continued to exhibit superior performance long after a humble leader retired; and that they did not have embarrassments such as mistresses, theft for personal gain, or financial misappropriations (Collins, 2001).

Humility impacts leadership in three ways: 1) It influences the leaders to act in ways that are other-enhancing rather than self-enhancing; 2) It shields the leaders from craving the spotlight, even to shun attention; and 3) It enhances organizational learning and organizational resilience, which in turn impacts

organizational performance (Morris, et. al., 2005). A leader who is humble listens to and carefully considers the views of others, is concerned about the work of the team more than of his or her individual work, and is prepared to offer praise and support for others who contribute to organizational success. In the financial area, billionaire, Warren Buffett, is well-regarded personally and seems to exemplify an individual who possesses a good dose of humility. He doesn't show off with flashy cars and intimidating mansions. Buffet lives in the same small 3-bedroom house in mid-town Omaha, which he bought after he got married 50 years ago, and his annual salary of \$100,000 is infinitesimal compared to remuneration of other CEOs in similar companies. His advice to young people should have been heeded by many in the financial crisis: "Stay away from credit cards and invest in yourself and Remember: Money doesn't create man but it is the man who created money; live your life as simple as you are; don't do what others say, just listen to them, but do what you feel is good; don't go on brand name; just wear those things in which you feel is comfortable; don't waste your money on unnecessary things, just spend on what you really need. After all it's your life then why give chance to others to rule your life." (Couch, 2011)

Robert Merton, the Nobel Prize-winning Harvard economist, touched upon "humility" in remarks he made in a recent lecture that aimed to explain why the nation's financial system melted down. Mr. Merton described how the risks associated with innovative financial products were, serially, underestimated. In essence, the leaders didn't really understand the dangers of the financial products with which there were working, and that they put too much faith in models. He suggests a more humble approach to working with innovative financial products might have been in orders. "The measure of innovators is not in the mistakes they make, but in the lessons they learn. We now know that our complete markets need better models, which should include more humility (emphasis added), acknowledging that some risks are still too uncertain to measure and should be avoided" (Crovitz, 2009).

An executive from an industry unconnected to the causes of the great Recession, but who exhibits the important role humility plays in leadership is Patricia Woertz, Chairman, CEO, and President of Archer Daniels Midland (ADM), a giant food processing company also on the leading edge of ethanol production and research. Ms. Woertz is the first non-family member, first outsider, and first female to lead ADM. On her first day a skeptical VP asked her "Well, what do you bring us?" Rather than bristling, she viewed the question as an honest one and responded that during her first 100 days she wanted listen, learn, and build trust (Birger, 2006). Woertz sums up her approach to leadership with four words: Be, Know, Do, Care. "'Be' is about being yourself, leading from your values. There is no substitute for leading from your core values. 'Know' is to know your people and what motivates them. Know your job, your competition. 'Do' is be biased towards action. Do it—take those chances and risks. 'Care' about people. When people know you truly care about them, all change and success comes." Under Woertz's leadership, ADM has posted record financial result and broadened its business lines. Those results, in the opinion of many executives at ADM, can be traced to her willingness to include others in decision processes and not have the need to appear as the smartest person in the room (Birger, 2006).

## **Honesty**

Followers follow character and character begins with honesty and integrity (Kouzes and Posner, 1993). Honesty is the most admired quality of leaders and always been a bed rock principle sought for all workers not just leaders. Clawson (1999) places the foundation of effective leadership on the moral grounds of truth telling, promise keeping, fairness, and the respect for the individual. Honesty is a virtue one achieves or rejects through overt decisions.

It is rational to assume that leaders in any type of endeavor can make "honest mistakes," or simply bad business or bad government policy decisions. It is equally rational to assume that if a leader makes too many of these types of transgressions, then they are unfit for leadership role and should be dismissed by their boss, by their board of directors, by their customers or, in the case of elected officials, by the voters. Unfortunately, many of the key players of the Great Recession went far beyond making costly business or policy mistakes. Many lost their moral and ethical compass. Bernard Madoff (Bernard L. Madoff Investment Securities, LLC), Allen Stanford (Stanford Financial Group), the late Danny Pang (Private Equity Management Group), have been adjudged by juries of being simply dishonest individuals

who willingly engaged in dishonest and/or criminal behavior. For these folks, honesty wasn't even on their radar screen.

Ken Lewis, who had been the well-respected Chairman and CEO of Bank of America until his performance was called into question and was deposed as Board Chairman in an April 2009 shareholders' meeting, has subsequently had his honesty questioned on at least two counts. Questions about him rose over his behavior at the time Merrill Lynch was being forced into a merger with Bank of America. This forced merger was just prior to a point when Merrill would have had to file for bankruptcy. It became clear that Lewis had misgivings about the merits of a merger of Merrill into Bank of America, but didn't share those misgivings with his own board and with shareholders. At the April shareholders meeting, Lewis was accused of violating Bank of America's own code of ethics by not expressing his views. New York State's then Attorney General, Andrew Cuomo, got Lewis to admit that he caved into threats of reprisal by former Secretary of the Treasury, Hank Paulsen, and Federal Reserve Board Chair, Ben Bernanke if he squelched the Merrill deal.

John C. Bogle, the founder and former CEO of the Vanguard Group of Mutual funds, commented upon the apparent decline in honest business dealing in an Op-Ed piece he wrote for the Wall Street Journal (2011). In that piece, he wrote that he:

"...placed heavy responsibility for the meltdown on a broad deterioration of ethical standards...self-interest got out of hand...and unchecked market forces overwhelmed traditional standards of profession conduct develop over centuries. The result is a shift from moral absolutism to more relativism. We've moved from a society in which 'there are some things that one simply does not do' to one in which 'if everyone else is going it, I can too.'" Business ethics and professional standards were lost in the shuffle.

Honesty is very easy to discuss when it is not present, but more difficult to find examples when it is. The expectation of honesty is so pervasive that it does not create positive news or public comment; therefore, providing an example of an honest leader who participated in the events of the great Recession is not possible, not because they do not exist, but rather because there is no public reporting of them.

## **RECOMMENDED CHANGES THAT MAY MITIGATE FUTURE LEADERSHIP PROBLEMS**

If one accepts the assertion that leadership played a significant role in the decisions that led to the crisis, then one must follow Dimon's advice and offer ideas that may mitigate the problems in the future. Boards of directors, potential business partners, investors, shareholders, voters, and others could benefit by knowing the H Factor profile of an individual with whom they will be involved in business or other transactions. Because many of those who contributed to the decisions leading to the 2007-2009 financial system melt-down were elected and appointed officials in the government, it is just as important to know the H Factor profile of those individuals. Since traits and behaviors have such a high degree of recognition and inter-reliability, conscientious boards and voters could amass personal and publically available information about the individual and then, using a reasoned-judgment technique, develop forced-rankings of them onto a scale that would lead to creating a given leader's H Factor score. Table 1 offers a rating scale instrument and evaluation mechanism for this purpose. Through more research, this scheme could be refined and improved.

The contributors to an "H Factor" can be either positive or negative. Honor, humility, and honesty make positive contributions to a score. In other words, the more a person manifests these characteristics, the more likely it is that they will adhere to high ethical standards, moral principles and make use of all available information sources. Conversely, the illustration identifies hubris, hypocrisy, and hostility as detractors to leadership, which have been shown by researchers to have negative impact on judgment, risk propensity, and processing information. One would assign an individual's position within each category by carefully perusing publically available documents, talking with people who personally know the individual being assessed, as well as relying on observations in public forums. The process is not dissimilar to a thorough employment background check, but with the added advantage of high inter-rater reliability because traits and behaviors are being assessed.

**TABLE 1**  
**CONTRIBUTORS TO THE “H FACTOR” IN ORGANIZATIONAL**  
**LEADERSHIP EFFECTIVENESS**

<b>Positive Qualities or Characteristics</b>	<b>Limited = 1 pt.</b>	<b>Average = 2pts.</b>	<b>High = 3pts.</b>	<b>Individual Rating</b>
Honor				3
Humility				3
Honesty				3
<b>Negative Qualities or Characteristics</b>	<b>High = 1 pt</b>	<b>Average 2 pts.</b>	<b>Low 3 pts.</b>	
Hubris				3
Hypocrisy				3
Hostility				3
“H Factor” Score				18

Note: The “best” score would be 18; the “worst” would be 6.

It is tempting to dismiss the H Factor construct because it is subjective and can’t be practically measured via paper and pencil tests. But, subjectivity is equally pervasive in many things in organizational life. Performance appraisal, for example, is in great part subjective. Whether one is performing well or poorly is largely in the eye of the beholder. But, over time, systems and procedures have been developed that “objectify” that subjective process to the point where performance evaluation systems are accepted as reliable and valid.

In the private sector, too many corporate boards have no systems in place to properly prepare them for an errant CEO or for other crises. (Lublin and Tuna, 2008). We submit that a great deal of information is available in the public domain about leaders and their actions, and/or obtainable from other sources. This information can be reviewed and then aggregated into an H Factor profile for a leader. If the organization, if the position, if the “cause” that a person is leading, or would be leading, is important enough, then the time and effort required to create an H Factor profile or score for that leader is warranted. This applies not just to corporate leaders, but to those seeking election, re-election, or appointment to government leadership roles as well.

## CONCLUSION

Our study suggests that the quality of leadership exhibited by key players may have been adversely affected by behavioral shortcomings which could have been identified well before the crisis occurred. When all of the evidence is finally in about the story of the United States’ “Great Recession” of 2007-2009, that story will likely show that failures among leaders who were the key players in what took place will not be attributed to their lack of education, their lack of skill, their lack of experience, or their lack of spending lots of time on their job. Instead, the failures will be pinned on personal failures. It will be shown that shortcomings in the areas of honor, humility, honesty, hubris, hypocrisy, and hostility had at least as much to do with the meltdown as did technical failings. Many of the behaviors and traits in the H Factor profile are correctable or changeable through awareness. Recognizing behavioral deficiencies is the first step toward taking corrective action. Leaders at the top of organizational pyramids need to examine their own characteristics first, and correct or adjust their own behaviors. Thereafter, they need to move down the organizational pyramid and work to improve the H Factor scores of their subordinate leaders. If the process can be moved toward a logical conclusion, improvement in leadership and avoidance of an occurrence like the 2007-2009 debacle can be avoided.

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# The Non-profit Sector and its Challenges for Governance

Philippa Wells  
University of Ballarat

*Non-profit organisations make up a considerable percentage of economic activity in many economies, yet their governance requirements and structures have historically tended to be ignored, or sometimes assumed to be similar to those for other organisations, including large publicly listed corporates. This is not the case. This paper identifies some of the frameworks proposed for evaluation of governance in NPOs, explores some characteristics of non-profit organisations that have significance for governance and it raises questions about its shape and direction. Much of the discussion involves the non-profit sector in Australasia but has relevance to many such organisations regardless of location.*

## INTRODUCTION

“Non-profit organisations” (NPOs), otherwise known as “third sector” organisations (TSOs) include NGOs or non-governmental organisations, charities, public-service organisations and clubs, societies and unions. They are defined as “organisations that operate for social or community purposes, do not distribute profits to members, are self-governing and independent of government” (Australian State Services Authority, 2007, p.15) although Salamon (2010) points out that the definition is somewhat more complex and to some extent a function of social or political mores. They fulfil “a broad range of essentially ‘expressive’ functions such as civic and advocacy, culture and recreation, environmental protection, and business, labour, and professional representation as well as the more commonly perceived ‘service’ functions such as education, health care, and social services” (Salamon, 2010, p.185).

As some indication of their ubiquitous presence, in the United States as of 2009 there were approximately 1.5 million tax-exempt organisations with over US\$1.4 trillion in revenue (National Centre for Charitable Statistics (NCCS), 2009; Wing, Roeger and Pollack, 2010) and as of 2004 involving some 8.9% of the total workforce (Sanders, O’Brien, Tennant, Sokolowski and Salamon, 2008) . In New Zealand in 2005, the number of NPOs totalled 97,000 (not-for-profit.org.nz, 2006-9), with 2004 revenue calculated at over NZ\$8 billion and 8.9% of the total workforce (Sanders et al, 2008). Comparative Australian figures are 700,000 with AU\$76 billion in revenue and 8.6% of the total workforce (National Roundtable of Nonprofit Organisations, 2009). In the UK, there are over 700,000 registered charities (Knowhow non-profit, 2011) while in 2008 the average of total workforce participation over 41 countries was 5.6% (Sanders, et. al., 2008).

In 2000, as a consequence of the sector being perceived as the “lost continent on the social landscape of modern society” (Johns Hopkins University Nonprofit Sector Project as quoted in Pascoe, 2008, p.6), almost forgotten in discussion and debate over the actual and ideal relative contribution and participation rates of Government (public sector) and for-profit businesses or private sector, efforts have been made to draw research attention to the sector, its contributions, needs and management. The Johns Hopkins

University research program involved teams from 24 countries around the world in examining the significance and nature of non-profits in their country and region. Other research has involved, *inter alia*, issues relevant to governance, including the influence of stakeholders on strategic direction (Inglis and Minahan, 2005); the influence of the economic market on non-profit governance (Auteri and Wagner, 2006); governance practice (LückerathRovers, Quadackers, and De Bos, 2009; Steane and Christie, 2001); difficulties surrounding governance and its purpose (McDermont, 2007); regulation and its role in governance (Pascoe, 2008) and means of evaluation (Mueller, 2007; Mueller, Williams, Higgins and Tou, 2005) to name just a few.

There is no doubt that credibility for NPOs is positively linked to good governance which in turn has a strong positive link to the ability of such organisations to obtain the necessary funding and popular support to achieve their objects. In particular, Mueller et al (2005) and Mueller (2007) highlight the importance for NPOs to maintain strong credibility when facing such challenges as scarce funding and burgeoning demand as governments withdraw from direct involvement in aspects of social welfare work (McDermont, 2007; Mueller, et. al., 2005), the emphases and objectives of funding agencies shift and personal spending and gifting patterns change (The Urban Institute, 2007). In addition, and in the aftermath of an assortment of financial scandals impacting the non-profit sector (Buckhoff and Parham, 2009; Hawkes Bay Today, 2005; Smith, 2006; Strom, 2006), the emphasis is very much on appropriate and transparent governance.

The purpose of this paper is to contextualise the messages from the literature surrounding the governance issues facing non-profit organisations with the objective of highlighting the problems in devising effective governance approaches. It begins with an introduction to the concept of “corporate governance” and continues with a brief overview of various frameworks that have been proposed for evaluating governance of organisations in this sector. This is followed by discussion of the challenge faced by non-profit organisations in devising and implementing appropriate governance structures, given their multiplicity of funding, size and purpose and finishes with a series of questions that could usefully be the focus of further research as to how good governance should or can be achieved. In the interests of clarity, the principal focus is on NPOs in Australia and New Zealand, although clearly the issues are common to many NPOs regardless of location.

Corporate governance, or “rules, standards, procedures and institutions intended to guarantee good and responsible management and to overcome deficits of corporate control” (Leyens, 2007, as quoted in Ott, 2009, p.255) is encapsulated in the principles of good corporate governance (OECD, 2000 and 2004), in various statutory instruments (including the Corporations Act 2001 (Cth, Australia) and the Companies Act 1993 (NZ) and standards (such as the Australian 8000-2003). It has also emerged as a prominent theme in corporate law and management literature since the abuses thrown up by the “corporate greed of the 1980’s” (Francis, 2000, p.10). However, despite there being recognition that non-profit organisations need to observe good governance practices, these principles are largely devised, composed and of particular relevance for the large publicly listed corporate fitting the Anglo-American model (Hough, McGregor-Lowndes and Ryan, 2004). Herein lies a problem. There is a growing resistance to this idealised “shape” of corporate governance with arguments framed by cultural and political diversity and different political and legal systems (Mason, Kirkbride and Bryde, 2007; Nwabueze and Mileski, 2006). Even more do these arguments resonate with the non-profit sector (Millar and Abraham, 2006) due in part to the quite different needs, focus and accountability of NPOs as compared to corporates.

Consequently, various researchers have proposed a range of frameworks for evaluating governance in NPOs. Millar and Abraham (2006) discuss and offer critiques on four of these, including the integrated model proposed by Zahra and Pearce (1989), the conceptual framework devised by Bradshaw, Murray and Wolpin (1992), the Six Dimensions Framework formulated by Jackson and Holland (1998) based on research by a team from the University of Georgia, and Nicholson and Kiel’s Intellectual Capital framework.

Briefly, Millar and Abraham judge the integrated model (Zahra and Pearce, 1989) as being of limited relevance to the non-profit sector as it concentrates on organisational and structural issues affecting corporates. Bradshaw, Murray and Wolpin (1992) endeavoured to develop their framework to analyse the

contribution of board structure and process dynamics to board and organisational effectiveness of Canadian NPOs, but Millar and Abraham (2006) consider that it failed to contribute to understanding how relationships between board members could contribute to overall governance. Jackson and Holland's identification of "six dimensions" of board competency is considered useful in extending the understanding of governance into interpersonal phenomena but "failed to demonstrate the actual relationships that existed between each of their six dimensions and the effect that one dimension might have on another" (Millar and Abraham, 2006, p.8). Finally, although the intellectual capital framework developed by Nicholson and Kiel (2004) acknowledges the role of the intellectual capital vested in the board in adding value to the organisation, Millar and Abraham (2006) conclude that it fails to address how the dynamics of the system as revealed in individual director behaviour would determine whether the capital is used in a way that adds value.

Cahill, Armstrong and Storey (2001) propose a framework to foster social capital formation, while Mueller, et. al. (2005) offer the Gap Evaluation Tool or GET as a self-evaluation tool for NPOs to test themselves on their governance and management practices. Millar and Abraham (2006b) move away somewhat from a capital or management perspective (with a focus on achieving a desired outcome or end) in proposing the application of Habermas' theory of communicative action to governance of NPOs on the premise that awareness, support, cooperation and drive of those involved in such organisations are critical in shaping their contribution to society.

The final evaluation framework that should be mentioned here is stakeholder theory which, while addressing a broader range of issues than governance structures, is of clear relevance. However, there is little consensus as to whom or what is a stakeholder. While Freeman (1984) classified shareholders, suppliers, employees, customers and the community as the "big five" stakeholders for a commercial organisation (or their equivalents for a non-commercial), he did not limit the definition to those five groups: his "now-classic" (Mitchell, et. al., 1997, p.855) definition includes "any group or individual who can affect or who is affected by the achievement of the organization's objective" (Freeman, 1984, p.25), a potentially limitless class.

Indicatively, Mitchell, et. al. (1997) describe no fewer than 28 different definitions of stakeholder that range from the relatively narrow (voluntary or involuntary riskbearers (Clarkson, 1995)) to the very broad (Freeman and Reed, 1983) as delivering a "maddening variety of signals" (Mitchell, et. al., 1997, p.853). Those described as having a "direct" or "primary" relationship, influence, effect or interest (including shareholders/members, employees, customers/clients, suppliers, debtors and creditors/providers of funds) are joined by those whose relationship, influence, effect or interest is "indirect" or "secondary" (Waddock, Bodwell and Graves, 2002). Examples of the latter include such disparate and overlapping collectives or social concepts as competitors, the media, Government, special interest or pressure groups in the community, the community itself (however defined), the public, the environment (Brenner and Cochran, 1991; Donaldson and Preston, 2005; Freeman, 1984; Goodpaster, 1991; Tsogas, et. al., 2005), those usually thought of as having an interest or stance that is adversarial (Tsogas, et. al., 2005), and even terrorists, blackmailers and thieves (Jensen, 2002). For NPOs in particular, there is an additional issue: how to identify stakeholders and to prioritise and/or reconcile their frequently disparate demands and needs. This is an issue addressed by Mitchell, et. al. (1997) with their identification/salience framework to establish whom Management/Boards should and do consider in making decisions.

What these various proposed frameworks (and their critiques) highlight more than anything as posing challenges to effective governance is the multiplicity of interests NPOs seek to address along with their diversity in focus, size, direction and accountability. Also of importance is the potential and actual pressure on NPOs exerted by outsiders (including funders, supporters and clients). The following sections explore these aspects of NPOs and the governance challenges they pose.

## **THE NON-PROFIT SECTOR- ACCOUNTABILITY**

The concept of the stakeholder and the theory (Stakeholder Theory) that underpins it has attracted increasing attention when it comes to issues of governance in many different situations and contexts (for

example, Donaldson and Preston, 1995; Heath and Norman, 2004; Kusnanto, 2002; Mitchell, Agle and Wood, 1997; Scholl, 2001) and increasingly, organisations of various types and in virtually all sectors (private, public and third) acknowledge the need to consult, involve and consider them and their interests. More specifically, it is almost a given that for the following reasons, “stakeholders” (as opposed to profit-seeking contributors of capital) are of particular importance in the NPO context.

NPOs by virtue of their definition do not have “owners” or anyone entitled to receive residual profits (LückerathRovers, et. al., 2009; Jamali, et. al., 2010). Consequently, one of the pivotal foundations of the major alternative agency theory is absent (Millar and Abraham, 2006). It is also arguable that the fundamental tenet – that an agent (or in the corporate context, the CEO or Manager) is self-serving – runs contrary to the traditional perception of the leader in a NPO as a person wanting to do good rather than do well, and that there are good reasons why a Board (if it has one) should wish to collaborate with a CEO or Manager rather than control (Hough, et. al., 2004).

Lacking a paramount objective of profit maximisation, the strategy, objectives and behaviour of NPOs are multifaceted and fluid as they respond to social, economic and political change in an attempt to remain relevant and functional. Where, for example, Government assumes responsibility for public health, an NPO previously active in that area may turn to providing support for the families of the sick, or where tenant participation in community housing schemes is actively encouraged by Government as a weapon against local authorities (McDermont, 2007), so those affecting or affected by the NPO and its objectives (Freeman, 1984) also alters.

It is assumed that NPOs have a mission or missions (Millar and Abraham, 2006; Mueller, et. al., 2005) or some other agreed value(s) (Auteri and Wagner, 2006) that provide a focus for those involved at various levels and in different ways both materially and otherwise; funders, workers and users. As part of that it can be argued that for many of those individuals and groups there is a greater personal connection and even a sense of loyalty to the NPO than may be the case for commercial corporations.

Despite these commonalities, the non-profit sector (and by analogy stakeholders) is far from homogenous (LückerathRovers, et. al., 2009; Millar and Abraham, 2005; National Roundtable of Nonprofit Organisations, 2009; Pascoe, 2008). In addition, the characteristics of the individual organisations and the nature of the sector itself can shift over time and place. The resultant complexity and diversity (and the implications for stakeholders) also have implications for governance. These are the focus of the following discussion.

## **THE NON-PROFIT – DIVERSITY AND THE STAKEHOLDER**

### **Purpose**

There are almost as many purposes as number of NPOs. However, and in the interests of clarity, in their study of the New Zealand NPO sector, Sanders, et. al. (2008) classify NPOs by reference to two functions: a service function (involving the delivery of such direct services or facilities as education, health, housing, community development and the like) and an expressive function (supporting advocacy for and promotion of culture, religion, professional development and policy values).

Service organisations normally have quite clearly defined and articulated roles and functions, including providing health care, managing or providing accommodation, education or some other community-based support. As the providers of funds (such as Government, local authorities and charities) often look to support such organisations for specified outcomes, their assessment of any finding application or renewal/extension of funding will most likely take into account the extent to which the organisation has and/or can fulfil those roles and functions (that can be very specific, such as number of people settled, number of operations in particular categories performed, number of meals provided to the homeless). However, the expressive function is less easily quantified and outcomes potentially harder to assess or measure. In addition, their sources of funds can be affected by changes in the way donors and regulators perceive them (for example as charities or as political organisations). What makes the situation more unclear is the fact that many NPOs pursue a range of activities where the boundary between them

may be quite blurred (such as health and social support services as well as public advocacy or health and lobbying for political change).

### **Funding**

Funding for non-profits comes from a variety of sectors, and can differ dramatically depending on the jurisdiction, focus (purpose) of the NPO and its size. By way of indication, the Sanders, et. al. (2008) report that in 2004, 32% of Australian NPO funding came from Government sources in the form of either grants or contract monies and for New Zealand, 25%. Other sources of funds include foundation and other large private sector donors as well as one-off or on-going individual public donations, fees or subscriptions (again for Australia and New Zealand those figures are 10% and 20% respectively from “private philanthropy” (Sanders, et.. al., 2008, p.19) and 58% and 55% respectively from fees and subscriptions).

Providers of funds to NPOs are clearly important stakeholders as their decisions as to the level of funding (if any) and the purpose to which they must be put may be crucial to the viability and on-going success of the NPO (Mueller, et. al., 2005). Where Government is a major contributor, and with the emphasis in new institutional economics on the contractualisation of the relationship with the NPOs, high levels of accountability and transparency will be expected (Steane and Christie, 2001), a requirement that challenges to some extent the notion that NPOs are “independent of government” (Australian State Services Authority, 2007, p.15). Large or significant donors are also arguably in a position to influence governance practices (Fama and Jensen, 1983; Williamson, 1983) in contrast to small donors and members (depending on the size, operation and form of the organisation) and can challenge the idea that NPOs attract support from a variety of stakeholders because they share a single vision or mission.

Such could arise where, for reasons of funding, an NPO mimics a corporation. Indicatively, Lohmann (2007) discusses the pressures on NPOs caused by what he terms “philanthropic insufficiency” (Lohmann, 2007, p.440); a state that forces such organisations into seeking alternative forms of financial support (including user fees, sponsorship and result-based funding from Government or other bodies).

For such organisations then, there will be at least two principal stakeholders or claimants. First, the funders who at the very least would expect the NPO to do an adequate job in spending the money. However, potentially in conflict with this stakeholder is the membership and/or workforce (who may also be involved directly or indirectly in determining how the money is to be spent) (Auteri and Wagner, 2006) and/or those who benefit from the work of the NPO (Krashinsky, 1997). Where the NPO has multiple purposes, the complexity becomes greater as stakeholders with different expectations and demands cause the attention of those involved to “drift” (Jamali, Hallal and Abdallah, 2010, p.592), muddying the waters, creating tensions (Krashinsky, 1997) and reducing trust and loyalty on the part of those who consider the NPO has lost direction. An obvious example would be where an organisation offering social support services wins Government funding to achieve specific client numbers and performance levels. Where demand is higher than funded numbers the organisation may be forced to ration its services with deleterious effects on its reputation (as a philanthropic organisation), employees (who believe that the organisation has become unreasonably mercenary and managerial) and on those parts of its client base that do not satisfy the funding criteria.

### **Character**

NPOs are commonly seen as having an essential social (as opposed to commercial) culture (Hermann and Associates, 2005; Millar and Abraham, 2006) although Lohmann (2007) adds the caution that as NPOs frequently act in a very similar way to commercial operations, even that raises definitional and perceptual difficulties.

More generally, although “third sector”, “non-profit sector” and similar terms are often used as collective nouns, organisations deemed to fall within them are just not uniform and can in fact be poles apart. Religious/secular; national/international; charitable/non-charitable; human/non-human focused are just some of the possible dichotomies that can be applied to such organisations. Salamon (2010) discusses at some length the range of organisations that can fit this definition and how it can vary and change

depending on context (a curious example he cites in a footnote to p.176 is the charitable status granted a 15th century English organisation (Week's Charity) that distributed faggots free to the citizenry for the burning of heretics). This categorisation can be significant when it comes to governance as social norms and expectations can be powerful disciplines for those involved.

### Size

Non-profit organisations range from very large and/or multi-national structures (the International Red Cross and World Vision being two obvious examples) to very small, this latter group potentially involving only a very small number of active individuals (also often volunteers) (sometimes referred to as "micro" organisations (Clark, Kane, Wilding and Wilton, 2010)). Although detailed statistics on the size range of NPOs is scarce, some indication of size can be obtained from the percentage of NPOs staffed entirely by volunteer labour (and based on the assumption that a small NPO is likely to be in this position whereas a larger is more likely to have paid staff). In New Zealand some 90% of the 97,000 NPOs rely solely on voluntary labour. In Australia, the percentage is even higher, with only 5% of the approximately 700,000 organisations with paid employees. Finally, in the UK, Clark, et. al. (2010), report that only 22% of 171,074 voluntary (NPO) organisations in 2008 employed staff – most of those in the organisations classified by them as large or major.

The overwhelming implication from this predominance of volunteer participation in NGOs (that often includes members of the Board, if there is one (Steane and Christie, 2001)), is that those involved are committed to the ideals or objectives of the organisation – why else would they give their time and expertise? (Taylor, Chait and Holland, 1996). Such individuals are stakeholders because they are interested in the survival of the organisation. In addition, because those volunteers have chosen to be involved in the organisation for reasons other than remuneration, it is arguable that they are motivated to monitor the organisation to ensure that it fulfils its objectives.

However, not all volunteers are the same and their motivation may be a function of the nature of the organisation itself. They elect to join an organisation for a variety of reasons, including the desire to do good, family involvement (for example children or partner), social reasons or for other personal purpose. Insofar as those joining boards or committees are concerned, election can be recognition of demonstrable contribution but can also be a function of personal relationships, manipulation, popularity or power. In addition, once on the board or other governing body their talents and expertise may be poorly used and governance concentrated in the hands of a few or one (Taylor, et. al., 1996), a trait that further supports the conclusion that motivations for such participation are quite complex. It is also reasonable to suggest that only larger NPOs are likely to have a Board or equivalent with smaller ones relying on a committee structure at the most.

Insofar as size is concerned, there is another important matter that should be mentioned - regulation. Although it is estimated that less than half of all NPOs in Australia are incorporated (some 380,000 out of a total of 700,000 (National Roundtable of Nonprofit Organisations, 2009)) and only around 20% of the 97,000 in New Zealand (Statistics NZ, nd), the larger NPO is very likely to be structured as a separate legal person (in Australia most commonly as an Incorporated Association (under the various state-based Acts having that purpose and focus)) and in New Zealand as an Incorporated Society (under the Incorporated Societies Act 1908) (one good reason being that tax advantages and Government funding opportunities normally require incorporation). All these statutes require that registered organisations operate under a constitution (that, *inter alia*, spells out the procedures to be followed in making decisions) and, in the interests of accountability, have their annual accounts independently audited. Members then have access to those audited statements which are also filed with the responsible statutory body such as the Office of Fair Trading (NSW) Consumer Affairs (Victoria) (both Australia) and the Registrar for Incorporated Societies (New Zealand).

In addition to organisational-oriented regulation there is regulation affecting activities of NGOs (including that specifying obligations of those running events, those protecting the safety and rights of employees and volunteers, specific requirements over fund-raising activities etc (Pascoe, 2008)). There have been concerns expressed over the burden posed to small business and small NPOs in particular as a

result of this regulation (Pascoe, 2008). Also, such regulation can pose a challenge for governance as small NPOs may lack the expertise, funds and strategies to manage the consequential legal risk.

In brief then, an organisation may be a private, independent, non-profit seeking organisation whose surplus is not distributed to members and that is established to fulfil some social or community purpose (Australian State Services Authority, 2007), therefore deemed an NPO according to commonly applied criteria. However, even the terms “independence”, “private” and “non-profit” are coming under increasing pressure as organisations in this sector face greater demands, expectations and costs from a range of directions and locations. In addition, and as indicated in the above discussion, the definition provides little guidance as to what governance structures are appropriate, useful or measurable in terms of their efficiency or effectiveness.

Despite the economic importance of NPOs as identified in the introduction, therefore, there are few characteristics that are common to all apart from their principle purpose: this sector-wide complexity raises issues over what if any governance framework is appropriate and relevant to NPOs and that would address the objectives of accountability, compliance and effectiveness. More research is needed. The final section of this paper raises questions on governance issues of particular relevance to the NPO sector and point the way to further research.

## **ISSUES FOR FURTHER CONSIDERATION AND RESEARCH**

A series of questions may assist in reflecting on the governance issues that arise from the above discussion and point the way to further research in the area.

Is there an argument for applying similar concepts to those underlying public sector reforms that have occurred in a variety of economies including New Zealand - making clear structural and governance distinctions between Government – funded services that can be or are exposed to market discipline and those with a pure or primarily social function – to the non-profit sector? A clear example can be found in health, where competitive processes have been used to identify providers of long-term care, rehabilitation services, some specialist operative services and patient transport while preserving others to the public sector where deemed economically or politically appropriate (Lawrence, Alam and Lowe, 1994). If imperatives of “good governance” were determined by whether a particular organisation is or is not affected by market or quasi-market forces (such as vying for state funds or other contributions on a competitive basis), what does this mean for organisations with mixed funding, participation and management models? If such organisations split into two or more to quarantine activities fitting the criteria laid down by funders from those that are not, how does this shape their governance?

Can NPOs be categorised in terms of optimum governance by reference to the range and prioritisation of stakeholders (possibly using the identification and salience framework as devised by Mitchell, et. al., 1997)? In this case, how are governance structures to be shaped? The potential for tension between the needs and expectations of different stakeholder groups is not only clear; it also changes as the organisation adapts to changes in its legal, economic, social and cultural environment.

Is it possible to determine the optimal governance structure for any particular NPO based on its overall classification (character, funding sources, size and purpose)? If so, is it possible to classify NPOs according to some overall score?

Given the social capital function, the multiple objectives and diverse stakeholder interests served by many NPOs, would regulation be the best means of ensuring appropriate governance processes and practices or does this imply greater burdens and costs for such organisations that are simply too much to bear?

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# **Delegation, Authority and Responsibility: Removing the Rhetorical Obstructions in the Way of an Old Paradigm**

**Reginald L. Bell**  
**Prairie View A&M University**

**Nancy Dusty Bodie**  
**Boise State University**

*This study examined 14 articles in trade publications and professional journals, published between 1985 and 2010, that specifically addressed the management practice of “delegating authority.” The goal was to determine if there are meaningful changes in the advice authors gave their readers over the years or, if similarities in their prescriptions persisted. Findings show that authors provided a plethora of advice to their audiences on delegating authority. Furthermore, findings show that there are five key similarities in the semantics on delegating authority which authors used. In advising their readers on the topic of delegating authority, the authors prescribed that: 1) a process occurs in steps or stages; 2) results will contribute to greater organizational benefits; 3) selection of the ideal person who can accomplish a task is essential; 4) transferable authority, task specificity and trust are crucial; and 5) good communication between delegator and “delegatee” is essential. A four stage reconfiguration of the delegation process is presented.*

## **INTRODUCTION**

### **Defining Delegation**

While it is clear that authority can be defined as one person having the ability to make decisions that are binding on others, the actual delegation process in present-day management environments is not so clear cut. For this reason, it is always helpful to look a word up in the dictionary, as a first step, to gain a more banal understanding of how lexicographers denote a word. *Webster’s Online Dictionary* defines delegation as: “the act of empowering to act for another or, a group of persons chosen to represent others.” Sometimes the simplest definition is best, sometimes not. As an operating definition for this study, the ordinary meaning of delegation does not offer a thorough enough elucidation of what the word delegation means for modern managers.

Dunham and Pierce (1989) defined delegation as “the process managers use to transfer formal authority from one position to another within an organization and, thus, to put authority system they have designed into place” (p. 377). From their perspective, delegation becomes a prescriptive framework for managers, rather than a commonplace denotation. In modern management terms, delegation, as defined by the authors in the 14 articles compared in this study, has not appeared to have evolved much since 1989. Thus, the paper’s purpose was to explore further “delegating authority” within the context of the

professional management literature published over the past 25 years, especially articles targeting a practitioners' audience.

### **Delegation Issues Identified in Select Trade Publications**

Various issues related to the delegation process add to the complexity of the definition. Crucial questions between the delegator and delegatee need to be answered to assure optimum outcomes. Where delegation implies delegating of accountability as well as tasks, trust between the two parties is a crucial element which must be emphasized. Clarification of questions regarding the exact nature of the task, limits of authority and accountability, deadlines, relationship to larger projects, resources, and timing of updates is important to the successful delegation process (Helpdesk, 2006; Urbaniak, 2005).

Battles (2005, p.39) argues that while performance of the tasks is shifted to someone else ... "the responsibility for getting the work done and done correctly has not." In order to ensure that the delegation process works, the manager must 1) select the correct person with the necessary maturity and technical skills; 2) define the task so that the delegate has a clear understanding; 3) establish a schedule of progress points, measurements, and deadlines; 4) transfer appropriate authority to achieve the task; and 5) focus on the accomplishments rather than the method with which the task is accomplished (Battles, 2005).

The initial decision to delegate and to who is often difficult because of manager perceptions and beliefs. Some senior managers perceive women as poor at delegating because of women's "lack of single mindedness" because of their split focus on family and career (Newman, 2008, p.8). Other managers have doubts about their subordinates' abilities as compared to the manager's abilities. Doing the task oneself because of a reluctance to be perceived as "unwilling to get their hands dirty" is another factor that often prevents managers from delegating tasks (Master, 2001, p.94).

While setting clear objectives, establishing controls and accountability, and evaluating the final product, are important parts of the delegation process, Cauldron (1995, pp. 28-29) suggests that use of other interactive strategies may encourage effective delegation, such as:

- Asking for volunteers, rather than assigning the perceived best worker
- Providing training and guidance but being open to alternative approaches
- Asking for ideas where the employee may see something differently
- Explaining why a person has been chosen, to build confidence
- Providing both positive and negative feedback
- Identifying the lessons learned by both the delegator and the delegatee.

### **This Study's Purpose**

The previous issues suggest that confusion appears to exist among practicing managers on how they should go about delegating authority. The confusion is somewhat exacerbated by the tremendous amount of advice on delegating authority that is published in the trade publications and professional journals they read, which, over the years has bemused managers rather than making them "slaphappy with the punch of clarity." The magnitude of advice seems to interfere with managerial understanding of delegating authority; the semantics seem to contravene common understanding in management practice. Therefore, this study's purpose was to take a look at authors whose writings appear in trade publications and professional journals to determine if there are contextual differences in advice they gave their readers. Considering the large amount of rhetoric on delegating authority, three very important questions appear to need answers.

### **Research Questions**

1. Is all the rhetoric being published on delegating authority the same or different, regardless of the creative licenses authors use?
2. Do these authors use rhetoric to differentiate themselves because there is nothing new in the paradigm?

3. Is there a need to reconfigure the old delegating authority paradigm into a more modern perspective?

Notwithstanding these questions, a recurring rhetorical theme in trade publications over the past 25 years appears to be that authors are concerned about managers who fear losing control.

### **Managerial Fear of Losing Control**

Delegation, simply put, means a manager will temporarily transfer formal authority to another position on an indispensable assignment. The manager must select someone who can do an assignment correctly, and then allow time for the person selected to either accept or reject the conditions of the offer. Upon acceptance, the manager will create the responsibility, transfer formal authority, and allow the delegatee to do the assignment, with minimal oversight (Brown, 1998; Davidson, 1986). Unfortunately, when managers fear losing control they can inadvertently thwart the delegation process entirely (Anderson, 1992). Trust is absolutely essential when a manager transfers formal authority to another position.

Managerial fear of losing control is a phobia known as threat rigidity (Staw, Sandelands, & Dutton, 1981). Managers fail to transfer authority to another position in an organization successfully because of this phobia. The main problem with delegating authority is that some managers tend to have an inherent distrust of the people working for them based on their own prior negative experiences with delegating authority. In the past, entrepreneurs and female executives found it harder to let go of responsibility and authority (Baechler, 1996; Dawson & Kleiner, 1992). Threat rigidity comes loaded with a variety of complex reasons.

Managers tend to transfer biases that they believe to be cause effect from an old environment to a new environment. Because this sort of fallacious reasoning is temporal in nature, philosophers call it “post hoc ergo propter hoc—or “post hoc” fallacy: first this event (A) then this event (B); therefore, event (A) caused event (B). A very good example of post hoc fallacy is on the website FallacyFiles.com: (Retrieved, November 14, 2011 from, <http://www.fallacyfiles.org/posthocf.html>)

The only policy that effectively reduces public shootings is right-to-carry laws. Allowing citizens to carry concealed handguns reduces violent crime. In the 31 states that have passed right-to-carry laws since the mid-1980s, the number of multiple-victim public shootings and other violent crimes has dropped dramatically. Murders fell by 7.65%, rapes by 5.2%, aggravated assaults by 7%, and robberies by 3%.

It is human nature that people will tend to make a causal inference from a previous event to an event that follows. For example, a child’s survival can depend on a lesson learned from single event learning experience. From a single event a child will learn (reason thereafter) fire will burn the skin, dogs will bite when provoked, cats will scratch when cornered, etc! This knowledge will last for a lifetime. Despite never being burned after the first time the child is equipped with the knowledge fire will burn—knowledge that will be carried forward to adulthood to the end of life.

Unfortunately, some managers have a deep fear of losing control that is rooted in fallacious reasoning in management practice. This fear can be hurtful to the organization (Hunter, 2008). Biased managers have no real evidence that a new employee will act similarly to an old employee; they can misjudge the situation and burden themselves with too much work. Some managers believe employees are just not ready to take on any responsibility (Wilson, 2010). Some managers lack confidence in employees’ abilities (Douglas, 1992).

Nevertheless, unlike children, managers are adults, and well educated and experienced. They are not necessarily prone to behave the way we might expect them to behave, based on our memories of past employee behavior. Because of their employees’ education and experience, supervising managers must be prepared to escape the phobia of losing control. The only cure for the irrational fear of losing control is for managers to develop an ability to trust their employees. Success in transferring formal authority in an

organization is predicated on managers being keen on what it takes to delegate authority. Unfortunately, the huge amount of rhetoric published on delegating authority is at first glance the very thing that appears to obstruct managerial understanding of the delegating authority paradigm.

### **Is the Abundance of Rhetoric Obstructing the View?**

Douglas (1992) observed that supervisors might be suffering from a “hesitate to delegate syndrome,” arguing that this syndrome is associated with lack of confidence in employees and a fear of losing control. To impress upper management, the line manager should be able to find the best employee for the assignment and match his abilities with the tasks. Similarly, Brown (1998) argued that managers should: 1. Identify which tasks to delegate; 2. Assess the staff and list qualified candidates; 3. Design a training program; 4. Schedule a meeting with the selected employee; and 5. Know when to call a project back. Reporting on his personal experience at a steel mill, Protch (2006) noted that delegating authority worked best when authority was delegated along with responsibility. Other authors wrote about the benefits of delegation to the organization and to maximizing output.

Myrna (2010) argued that each employee’s output can be optimized through delegating authority. Since organizations have downsized their staff, knowing how to effectively delegate and optimize everyone’s groups, and prioritize tasks and efforts, is crucial. An accelerated continuous cycle of four steps is how this is achieved: 1) agreement, 2) accountability, 3) action, and 4) assessment. In other words, managers must: break tasks into groups based on value delivery; make sure tasks are understood; and assess progress on task accomplishments through formal and informal meetings. For entrepreneurs, running the “whole darn show” might not be the best strategy; in fact, one person trying to do every job can be a form of addiction (Baechler, 1996).

Some managers are destined to commit the seven deadly sins of delegation (Wilson, 2010), which are: 1) the “do it my way” syndrome; 2) believing our people are not ready yet; 3) abdicating, not delegating; 4) not providing clarity or specificity; 5) lack of communication to others; 6) taking it back; and 7) not establishing clear return and report processes. Hughes (2002) wrote that delegating duties can be a challenge difficult for any manager to overcome. The crux of her argument is predicated on proper task assignments and employees’ skill development.

Dawson and Kleiner (1992) argued that female executives must learn to “delegate low priority items both at work and at home.” Furthermore, once “successful women” have learned to delegate, they should delegate in relationship to their work duties and in their domestic duties.

For Gunn (2003) when leaders understand the delegation process it can unleash acceleration towards achieving the established goals. All can be accomplished through forbearance, tolerant restraint, focus and a leader who ensures that the “company’s overall tone, or feeling, is positive.”

Jones (1985) admonished managers to learn to delegate authority to fit their management styles. This sentiment seems to be echoed by Davidson (1986) who argued managers must act as motivators to get the most from their people; a part of motivating people includes assessing people skills, needs and interests before delegating tasks to them. Years later, MacKenzie (2003) argued leaders of organizations can lose their top talent when they fail to discuss important matters on assignments, i.e., not stating the big picture, failing to explain the steps, and not explaining the individual’s role and reasoning for selection in the first place.

### **Goal Attainment Through Delegation**

Good leaders are different than good managers in that good leaders know how to give up control, even when they are tempted to do everything themselves; often it is much better for the organization when leaders delegate authority (Marti, 2006). The current literature seems to suggest that delegation is a key to get subordinates and peers working collectively towards goals; delegating authority is also associated with the advantages of more cost-effective solutions (Hunter, 2008). Delegation is a critical factor in helping anyone become a leader (Lemberg, 2008). Delegating authority has even helped virtual teams perform better and when virtual team leaders were assessed by team members those who delegated

authority were positively correlated with team member satisfaction (Zhang, Tremaine, Egan, Milewski, O'Sullivan & Fjermestad, 2009).

In the 1980s the purpose of delegation was to share work according to the individual employee's abilities, resulting in an optimized organizational output; delegation in a nutshell meant sharing the work accordingly. Managers then could retain duties such as allocating resources, setting priorities, and motivating employees (Nisbet, 1988). Hicks (1988) argued that a success in public relations was dependent upon effective delegation because it freed managers from the routine task so they could focus more on the big picture. Babbit (1987) seemed convinced that bureaucratic organizations performed better when they hired strong people and delegated authority and responsibility to them to make the system work.

In the 1990s practicing managers had a voracious appetite for articles on delegating authority that included prescripts on why delegation fails such as managerial lack of patience, inability to let go (McConalogue, 1993), and insecurity and inadequacy, problems that have plagued managers in many Asian companies too (Bedi, 1994; Maynard, 1996). Despite these problems, there was evidence in the 1990s that authors writing on delegation understood there is a difference between delegating responsibility and relinquishing control (Korenblat, 1994). Thornton (1993) argued employees working for a credit management department would improve on motivation and interest in their jobs when given authority to make decisions. The manager would then be free to learn new skills and techniques because there would be fewer interruptions from subordinates and clients. Masak (1992) warned that delegation is an overlooked aspect of good time management. Axley (1992, p. 17) believed "Delegating is, essentially, a numbers strategy. It takes the workload off the shoulders of one person or a few people and spreads it around. It brings more human resources to bear on a task. By implication, this frees up the manager or supervisor for other responsibilities. These managers see delegating foremost as a method of boosting productivity and saving time--both theirs and their subordinates."

### **A Reconfiguration?**

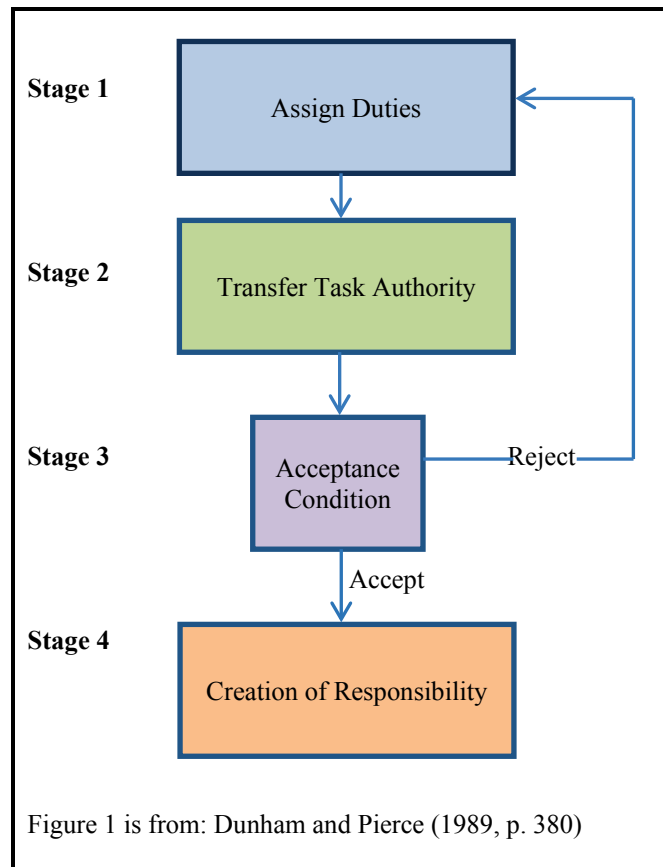
Shown in Figure 1 is a figure that depicts the four stages of the old delegation process (Dunham & Pierce (1989, p. 380): in Stage 1, the manager assigns duties; in Stage 2, the manager transfers task authority; in Stage 3, is the acceptance condition; and in Stage 4, the manager creates the responsibility.

More recently, however, Bushardt, Glascoff, Doty, Frank, and Burke (2010) found that at the core of management practice is assigning tasks and delegating authority and responsibility to subordinates. Bushardt, et al. (2010) argued that these are two widely held assumptions that are seen now as maxims or even principles of management: that the delegator has absoluteness in responsibility and that authority should equal responsibility; they believe that there needs to be a reconfiguration of the delegation process that is more consistent with reality. This view has merit. There does need to be a reconfiguration of the paradigm, of sorts.

Other factors contribute to the belief that it is time for a reconfiguration of this important process. Globalization, virtual organizations, the preponderance of team and collaborative management styles, and advances in software that simplify team based problem solving may contribute to questioning whether a rearrangement or updating of the delegation model is warranted.

This reconfiguration can be accomplished with clarification of the 25 years of rhetoric on delegating authority; furthermore, there is no need to abandon the old maxims which are at the core of the old paradigm—assumptions core to understanding the delegating authority process which have not changed much over the years.

**FIGURE 1**  
**THE OLD DELEGATION PROCESS IN FOUR STAGES**



## METHODS

Readers of trade publications such as *Black Enterprise*, *Supervision*, *Harvard Business Review*, *Modern Machine Shop*, and others, seem to have a huge appetite for articles on delegating authority. Furthermore, they act on the advice they read in these publications. Moreover, managers tend to not like theories that they cannot apply to their situational needs; thus, the professional and trade publications cater to this by publishing articles where theories have been put into practical applicable formats. Editors of these publications know that practicing managers are pragmatists.

According to MSN's BING definition, *prag-ma-tism* [prágmə tizzəm] is a:

1. way of thinking about results: a straightforward practical way of thinking about things or dealing with problems, concerned with results rather than with theories and principles
2. way of evaluating theories: a philosophical view that a theory or concept should be evaluated in terms of how it works and its consequences as the standard for action and thought.

(Retrieved November 14, 2011 from, <http://www.bing.com/Dictionary/search?q=define+pragmatism&qpv=pragmatist+definition&FORM=DTPDIA>)

Therefore, data for the current study were collected from articles published on delegating authority between 1986 and 2010. The article selection process was a convenience sample process, aiming to

achieve a relatively representative sample of articles from different years within the 1986 and 2010 range, and a variety of types of business academic journals and trade publications. The types of journals and publications also incorporated different audiences.

After collection, a preliminary coding guide was designed by dividing the data into parts based on the aforementioned old definition of delegation and then conceptualizing the data into new categories and relationships among the categories (McMillan & Schumacher, 1998; Strauss, 1987). The data was independently coded and analyzed by the principal researcher, ultimately resulting in the Table 1 and Figure 2 interpretations of findings.

## RESULTS AND FINDINGS

The articles differed in rhetorical approaches but the advice trade publication authors gave their readers had similarities that transcended articles and time. The semantics all seemed predicated on five core assumptions or prescriptions for readers based on anecdotal knowledge—not so much knowledge derived from scientific investigation. In delegating authority the authors prescribed that: 1) a process occurs in steps or stages; 2) results will contribute to greater organizational benefits; 3) selection of the right person who can accomplish a task is essential; 4) transferable authority, task specificity and trust are crucial; and 5) good communication between delegator and delegatee is essential.

What all this means is that there are definitely core underlying assumptions in the prescriptions authors writing for the trade publications and professional journals advocate for their readers. Table 1 displays data from 14 articles that represent authors' ideas spanning from 1986 to 2010. The similarities in content are several. Nearly all the authors prescribed steps or stages in the delegating authority process; most prescribed a greater benefit to the organization; most prescribed explicit or implicit communication between delegator and delegatee as a perfunctory part of the process; most prescribed finding the right employee to delegate authority to.

For example, in Table 1 the cells shaded in olive green represent the rhetorical similarity in the advice multiple authors gave their readers (managers) on the aspect of assessment and selection of the right person who can do the job when a manager has decided to delegate authority. It should be noted that in Table 1, three articles represent the contrary account of assessment of persons—meaning when managers violate certain aspects of the process the entire delegation of authority process will fail (Pollock, 1986; Maynard, 1996; & Wilson, 2010).

In the Pollock (1986) column, it is assumed that if a manager has a lack of confidence in the ability of others then a manager who does have confidence in the ability of others will be better able to delegate authority; this is why cell #3 in the Pollock (1986) column is shaded olive green.

In the Maynard (1996) column, insecurity (cell #2) is directly related to not selecting the ideal person, thus, it is shaded as advice on assessment of the right person because this rhetoric resembles the others' rhetoric—although it is an example of what not to do.

Similar is true for the Wilson (2010) column, cell #2. If managers taking the opposite view believe people are ready, then managers will be able to assess and select the right person. These three authors on assessment of persons seem rhetorically similar at the core, but, unique on the surface via stylistic devices and colorful jargon. Nevertheless, over the past 25 years authors seem to be saying similar things on this particular aspect of delegating authority: picking the right person for the task is essential.

In Table 1, cells that are colored light red represent the rhetorical similarity in the advice multiple authors gave their readers (managers) on the aspect of transferable authority and specificity of tasks or assignments when a manager has decided to delegate authority. It should be noted that in Table 1, that nearly all of the 14 articles specifically stated that delegating authority requires that a manager be able to specify transferable authority and carefully communicate the requirements of that authority in the task. Hicks (1988) cell #1 seems to advise on both task specificity and selection of persons in the same sentence, thus, there is a red box within the olive green cell. Also, the span of time among Nesbit (1988), Axley (1992), Brown (1998) and MacKenzie (2003) is 15 years; yet, the rhetorical similarity in advice

given to their readers is nearly identical. This evidence suggests that the old paradigm should be reconfigured.

## **SUMMARY AND DISCUSSION**

### **The Delegation of Authority Process Reconfigured into Four Stages**

Delegation involves a manager and a trusted person e.g., *The American Heritage® Dictionary of the English Language, Fourth Edition* defines delegatee as “one to whom something is delegated.” *Webster’s* defines delegatee as “to entrust to another.” While it is true an organization can delegate to another organization, or a group to another group, this study focused our attention on the managerial transference of temporary authority to another position. Hence, a manager who intends to transfer formal authority in an organization to another position should follow a process that happens, conceptually, in four stages; although, some stages could occur simultaneously. Nevertheless, much of the rhetoric in the trade publications and professional journals spanning 25 years is very similar which justifies a reconfiguration of the old paradigm on delegating authority which incorporates these commonalities—but not necessarily affecting the core maxims of the old delegation process.

In the first stage, the manager must understand what type of authority can be transferred. In the second stage, the manager must locate the best person who can accomplish the assignment. In the third stage, the manager must ask the person to accept or reject the conditions surrounding the assignment. And in the fourth stage, the manager, upon the person’s acceptance, should temporarily transfer authentic authority to the person accepting the assignment, create the responsibility and, trust the delegatee to do the assignment with minimal oversight. These stages are not necessarily done sequentially; for example, a manager (delegator) can select a person, ask if they would accept the responsibility on a job or assignment and then develop the assignment with the delegatee’s input before authority is actually transferred. The reconfigured delegation process is illustrated in Figure 2.

**TABLE 1**  
**SELECT TRADE PUBLICATIONS AND ARTICLES ON DELEGATING**  
**AUTHORITY SPANNING 25 YEARS**

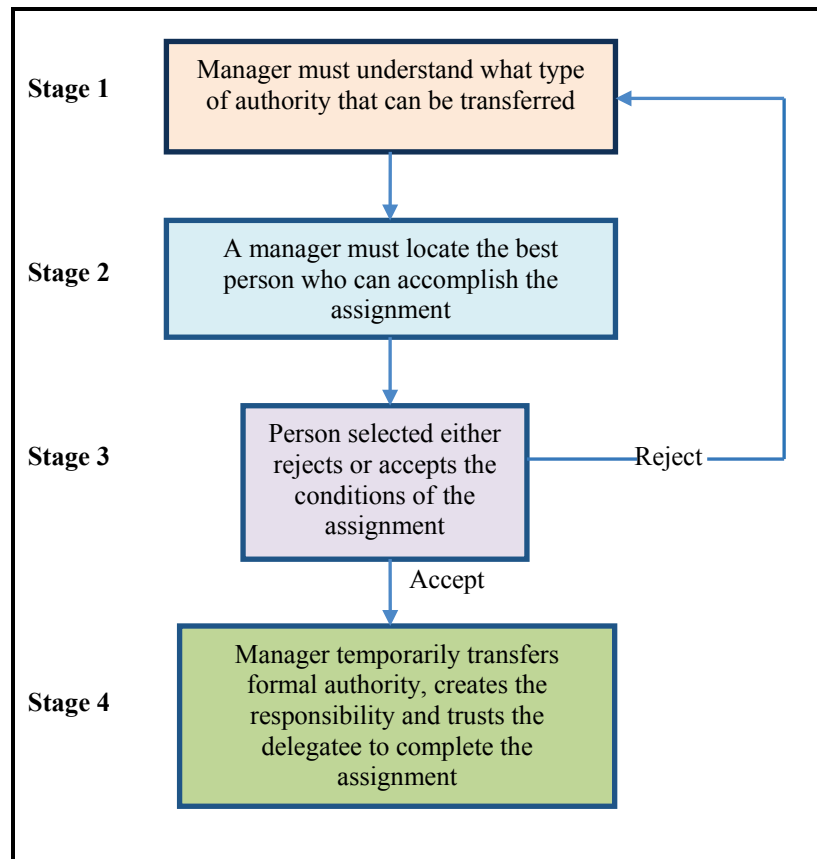
<i>Production</i>	<i>Data Management</i>	<i>The Public Relations Journal</i>	<i>Canadian Banker</i>	<i>CMA</i>	<i>Industrial Management</i>	<i>Nation's Business</i>
Pollock (1986) "Reasons for the failure to delegate include:"	Davidson (1986) "Suggestions to create a climate conducive to a motivated staff include:"	Hicks (1988) "Some signs indicating delegation is needed are: a heavy managerial workload, staff malaise, and failure to break new ground."	Nesbit (1988) "The elements of effective delegation include:"	Masak (1992) "Delegation helps managers challenge, motivate, and develop their staff:"	Axley (1992) "Steps in effective delegation include:"	Maynard (1996) "The most common reasons for not delegating are:"
1. fear of being considered inadequate for the job,	1. offering continuous feedback on a delegated task,	1. The first step in effective delegation is deciding which tasks can be given away and to whom they should be given.	1. communicating the task clearly,	1. The most poorly executed step in delegation is often assignment of the project or task.	1. Define the task.	1. lack of patience,
2. an obsession with perfection,	2. spending extra time with employees who are undertaking new challenges,	2. Next, activities should be prioritized, and finally,	2. scheduling,	2. Managers should focus on the objectives of the complete project, not just the specific tasks.	2. Review and select recipients.	2. insecurity,
3. lack of confidence in the ability of others,	3. assessing an employee's skills, interest, and needs before delegating a task to him, and	3. Staff should be assigned responsibility for each activity.	3. emphasizing results,.	3. Managers should try to negotiate with the employee while ensuring that they maintain a sense of control over the project.	3. Inform and instruct recipients.	3. inadequacy, and
4. reluctance to admit that someone else knows more,	4. offering praise as often as possible and demonstrating confidence in the staff in both words and actions.		4. giving minimal supervision,	4. When assigning the project, managers should attempt to convey their enthusiasm and commitment.	4. Provide follow-up support and communication.	4. occupational hobby
5. fear of not getting credit,			5. delegating entire jobs,		5. Perform final feedback and evaluation.	
6. lack of firmness, and			6. training, and			
7. fear of the progress of a subordinate			7. recognizing jobs well done, 8. absorbing stress, 9. giving sufficient authority, and 10. not limiting delegation to the less desirable jobs.			

**TABLE 1**  
**SELECT TRADE PUBLICATIONS AND ARTICLES ON DELEGATING**  
**AUTHORITY SPANNING 25 YEARS (CONTINUED)**

<i>Black Enterprise</i>	<i>Executive Excellence</i>	<i>Strategic Finance</i>	<i>SuperVision</i>	<i>Non-Profit World</i>	<i>Employee Relations Today</i>	<i>Inside Public Accounting</i>
Brown (1998) "To make delegation work for you, the following steps are recommended:"	MacKenzie (2003) "To help people succeed, take them through six steps:"	Gunn (2003) "Three keys to delegating decisions are presented:"	Urbaniak (2005) "If you follow these five steps you will greatly improve your skill in delegating:"	Lemberg (2008) "Here are the four keys to successful and effective delegation:"	Myrna (2010) "Delegation and execution can be accelerated with a continuous cycle of four steps:"	Wilson (2010) "The following are seven deadly sins of delegation:"
1. Identify which tasks you should delegate.	1. State the big picture.	1. The first principle of delegation is forbearance - tolerant restraint.	1. Select the job carefully.	1. Give the job to someone who can get it done.	1. agreement,	1. The do it my way syndrome,
2. Assess your staff and list qualified candidates.	2. Give the specific assignment.	2. Besides forbearance, the leader who is adept at delegation has focus.	2. Select the person carefully.	2. Communicate your conditions of satisfaction.	2. accountability,	2. Believing our people are not ready yet.
3. Design a training program.	3. Explain the roles of others.	3. Finally, the leader who delegates effectively ensures that the company's overall tone, or feeling, is positive.	3. Prepare all individuals for change.	3. Work out a plan.	3. action, and	3. Abdicating, not delegating.
4. Schedule a meeting with the selected employee.	4. State reasons for selecting the individual.		4. Turn over the assignment skillfully.	4. Establish a feedback loop. Create some pre-defined mechanism to keep you informed and to give your delegate a way to seek guidance.	4. assessment	4. Not providing clarity or specificity.
5. Know when to call a project back.	5. Explain the next steps.		5. Follow-up soon			5. Lack of communication to others.
	6. Summarize.					6. Taking it back.
						7. Not establishing clear return and report processes

- a) Cells that are colored olive green represent authors' advice to their readers on how they should go about selecting the right person for the task which is similar rhetoric across the various articles and years.
- b) Cells that are colored light red represent author's advice to their readers on how they should go about specifying authority and communicating the specificity of the task/assignment to delegatee.

**FIGURE 2**  
**THE DELEGATION PROCESS RECONFIGURED IN FOUR STAGES**



**Stage 1: Understand the authority that can be transferred.**

In the first stage, the manager needs to determine the authority that can be transferred. Managers will always garner authority because of the nature of organizational momentum: rapid change frequently forces managerial action that outpaces job analysis and design. Often, garnered authority is difficult, in some cases impossible, to transfer. Knowing what part of managerial authority can be formally transferred is crucial. Managers must understand there are two types of authority and they will overlap: 1) formal authority—normally written down and associated with formal title and hierarchical position and 2) garnered authority—normally not written down and not necessarily prescribed to a position, but, accompanies the manager who wields incredible power because others’ recognize their garnered authority as legitimate and are willing to act on their commands regardless of formality. Garnered authority is not likely to be transferable.

A manager’s attempts to transfer garnered authority in hierarchical structure transference can be problematic. Too often, managers are prone to engage in work that is not a part of their written, formal job description. Some managers over time blur these lines. And, even though many human resources managers struggle to keep pace, job analysis and descriptions often lag what managers are actually doing. How many times do managers proclaim when they don’t want to do something, “Is this even in my job description?” It is safe to assume managers at all levels will at some point in their careers engage in work not formally described, but which is essential in accomplishing their goals. If a manager wishes to reduce the resistance others will have towards the delegatee concerning the authority that has been transferred,

the delegator should separate formal authority from the authority which has been garnered before moving on to Stage 2.

**Stage 2: Define the task and find the right person for the assignment.**

In the second stage, the manager must find the right person for the assignment, and determine if the person selected can do the assignment correctly.

**Stage 3: Allow the person to reject or accept the conditions of the assignment.**

In the third stage, the manager should solicit the person thought to be best suited to do the assignment to either accept or reject the assignment. At this point, the delegation is conditional upon the acceptance. If rejected go back to Stage 1; if accepted go to Stage 4.

**Stage 4: Transfers the formal authority, creates the responsibility and allows the delegatee to do the assignment.**

In the fourth stage, the manager should, upon acceptance, hand over authority to the delegatee with minimal oversight. This is always easier said than done; some managers have a hard time letting go. Often, these managers are sufferers of a phobia known as “Threat Rigidity.” Now the aforementioned research questions can be answered.

**Research Questions Answered**

1. “Is all the rhetoric being published on delegating authority the same or different, regardless of the creative licenses authors’ use?” It is slightly different. The 25 years of delegation of authority rhetoric found in 14 professional and trade publications is not exactly the same; however, there is a good deal of rhetorical similarity.
2. “Do these authors use rhetoric to differentiate themselves from reporting on nothing new in the paradigm?” Over the past 25 years the professional and trade publications have published articles that differentiate themselves rhetorically around similar themes, yet, they do echo new views of the core of the paradigm. The old maxims (stages in the process, task assignment, acceptance, trust, etc.) shine in a new light (transfer of authentic authority, clarification of tasks, communication, feedback/feed-forward, real trust in letting go).
3. Finally, “Is there a need to reconfigure the old delegating authority paradigm into a more modern perspective?” Yes. The old delegation paradigm needs adjusting to include many elements imposed on modern managers including competing in global markets using virtual teams.

**Limitations and Future Research**

One differentiating factor of this study is its use of data collected from professional or trade publications (Western New England University, <http://www1.wne.edu/library/index.cfm?selection=doc.5188>). This data collection choice was deliberate and seemed appropriate for the current study because of its focus on applied learning of delegation principles and how these principles are used by practicing managers working in professions or trades. Additional insight in future research might be achieved through analysis of articles written by academic researchers and subject experts in peer-reviewed journals.

One of the key recent management issues is managing different generations. Future research might focus on whether and how delegation processes might differ between GenX, Baby Boomer, or other generations.

**CONCLUSION**

When managers learn to transfer certain aspects of their authority, with the realization these transfers do not mean an abdication of their authority, delegation is possible. Authority is having the ability to

make decisions that are binding on others. It may be a surprise to some managers that the reason they fail in delegating authority, no matter how sincere the manager might be, is because they do not understand the process requires trust. They fail because they fail to trust. Remember, delegating means assigning to a subordinate authority to make independent decisions on most of the issues associated with the assignment.

Organizations evolve much quicker than jobs can be analyzed, described and written down, especially in today's globalized world of virtual organizations, and intra-sector collaboration. Therefore, deciding on the assignment to be assigned to another person requires that managers understand clearly what their legitimate authority is as opposed to their derived authority. Opportunities emerge when organizations encounter problems, as do the leaders who exhibit immense power by resolving these dynamic changes and, often with little formal authority. Many managers gain power by knowledge or charisma or both. Some types of authority can never be transferred, regardless of the earnestness of the attempts.

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## **SAS 99: Deconstructing the Fraud Triangle and Some Classroom Suggestions**

**Alexander K. Buchholz**  
**Brooklyn College of the City University of New York**

*This article examines the nature of the fraud triangle, which was one of the components of SAS 99 as well as deconstructs the various underlying principles. The article will examine some of the pitfalls which auditors sometimes fail to consider when planning their audits as well as provide and serve as a planning guide for consideration by auditors. The article takes different viewpoints of the fraud triangle and shows the limitations as introduced previously. It will add to existing accounting literature in that it will stress to both academics as well as practitioners the necessity of educating future auditors in having a heightened sense of professional skepticism while conducting financial statement audits. To that extent, this article will provide some classroom applications involving the use of the case study method as a means to further educate future auditors.*

### **INTRODUCTION**

Gordon Gekko, the main character played by Michael Douglas in the 1987 movie *Wall Street*, stated that:

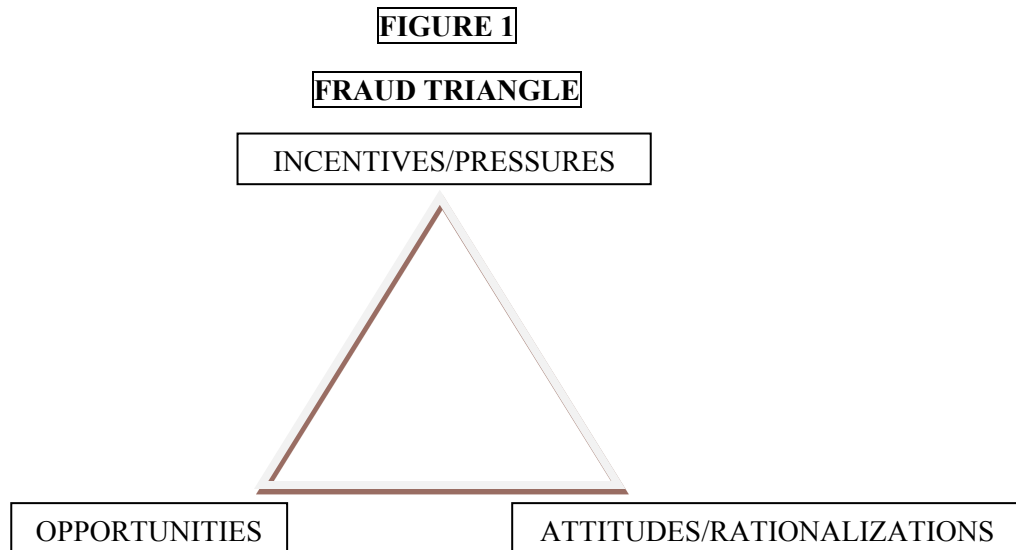
Greed, for lack of a better word, is good. Greed is right, greed works. Greed clarifies, cuts through, and captures the essence of the evolutionary spirit. Greed, in all of its forms; greed for life, for money, for love, knowledge has marked the upward surge of mankind.

However, greed has also become a motivation causing many scandals to have been perpetrated in corporate America over the past several years. Individuals who feel that they can steal from a company without being caught are sometimes prone to engage in fraudulent activities. Such notable instances have been documented in the cases of Enron, WorldCom, ZZZ Best, and Bernie Madoff, to name a few. In an effort to properly plan audits encompassing these circumstances, the American Institute of Certified Public Accountants (AICPA) reexamined the audit procedures used for the consideration of fraud in a financial statement audit. For audits beginning on or after December 15, 2002, auditors implemented Statement on Auditing Standards SAS 99 (AU 316). This standard changed the way audits are being conducted in an effort to further strengthen the consideration and possible detection of fraud. However, nine years later, we still see an abundance of corporate scandals resulting from fraud without detection by the auditor. It is important for the reader to note at this point that an audit is not designed to "find all instances of fraud" nor am I advocating that the public hold an auditor to this standard. Section 110, *Responsibilities and Functions of the Independent Auditor*, paragraph .02, states, "The auditor has a responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial

statements are free of material misstatement, whether caused by error or fraud." This article examines the fraud triangle, which was one of the components of SAS 99. It examines the nature of the fraud triangle as well as deconstructs the various underlying principles. The article will focus on and examine some of the pitfalls which auditors sometimes fail to consider when planning their audits. It will also provide and serve as a guide which auditors should consider when planning an engagement. This must be considered by both practitioners as well as academics. It is academics' responsibility to assist future auditors in heightening their sense of professional skepticism while conducting their financial statement audits.

## REQUIREMENTS OF SAS 99

In understanding the auditor's requirement for the consideration of fraud in a financial statement audit, it is necessary to understand SAS 99. The AICPA, through SAS 99, strengthened the auditing procedures to ensure financial statements are free of any material misstatement caused by fraud. SAS 99 was organized in such a way as to allow for a logical thought process to be undertaken from the initial audit planning until the final reporting stages. One of the major components of SAS 99, in addition to the above, was the fraud triangle (Figure 1). This is to serve as the focal point for all brainstorming sessions conducted during the planning stages of an audit. Each element on the fraud triangle in Figure 1 represents a possible reason why an audit client may commit fraud.



## SAS 99 FRAUD TRIANGLE DECONSTRUCTED

The idea behind the fraud triangle and related brainstorming session should be to plan the audit to make sure those potential fraud risks are identified and are examined to ensure that those potential fraud risks are not present and have resulted in a material misstatement on the financial statements. Fraud under SAS 99 is classified into either misappropriation of assets or fraudulent financial reporting. The profession has issued more specific guidance as to what constitutes incentives/pressures, opportunities, and attitudes/rationalization in the appendix to SAS 99 for each of these areas.

### Incentives/Pressures

1. As auditors, the profession has understood incentives/pressures to stem from an individual's desire to obtain some sort of economic benefit, very often resulting from the "lure of greed." This can result in someone billing fictitious revenues or delaying the accrual of certain expenses, for

example, so as to obtain a bottom line which is on, or close to, their original budgeted amounts presented to management. If management exhibits a sharp tone that a company's net income (loss) should never be at a variance with the original budget, this now creates pressure for the client's staff to make sure they achieve the "desired" bottom line or face fear of termination. Another possible incentive/pressure can arise if client management has compensation which is connected to the performance of the stock price. Two such examples of this are stock options and stock appreciation rights whereby the compensation of the recipient is tied to the upward performance of the stock price. If this is not a perfect example of incentive/pressure, then what alternatives remain?

2. Sam E. Antar, former Chief Financial Officer of Crazy Eddie, Inc., however, had a different view on the concept of incentives/pressures. His views on the fraud triangle lend themselves for an interesting take as well as an awakening of some of the ideas auditors should be aware of during a brainstorming session. He stated that:

As a society, we too often associate incentive with only an economic incentive to commit crime. You can commit an economic crime and have no economic incentive...Criminals can commit a crime for a whole host of reasons of which money is part of the incentive but not the primary incentive (Antar, 2010).

Antar states that individuals may steal for reasons other than money such as popularity. This is important to note because auditors have taken the approach that someone steals because they are in need of economic financial gain. Therefore, auditors should be accounting for this "popularity factor" in their brainstorming sessions and plan their audits accordingly.

## **Opportunities**

1. The professional literature indicates that opportunities arise as a result of the nature of the client's internal controls. The more lax a client's internal controls, the greater the opportunity for those internal controls to be circumvented and for possible fraud to occur. This does not imply, however, that stronger the internal controls diminish the possibility for fraud completely. It merely makes those committing the fraud work harder. Another opportunity which auditors must take into account is when a current auditor becomes employed in a managerial position at a client. While this is seen as a positive, in that client relations as well as the efficiency of the audit can be greatly improved, this can also represent an opportunity where the person will have the prior audit knowledge and experience which can be used for personal mischievous advantage. Therefore, as part of the brainstorming session, auditors must examine these areas to see what opportunities may exist and how they may cause a material misstatement.
2. Once again, Sam E. Antar offers a different perspective with opportunity, which is cause for concern. He states that:

You [meaning the inexperienced junior auditors who are recent college graduates who go straight out into the field] are the opportunity to allow us to commit the crimes. Your ethics, your gullibility, your lack of skepticism, your humanity, your vanity, your self esteem. We stroke your egos. You on a personal level, give us the opportunity to commit our crimes (Antar, 2010).

Although originally dismissing such an unfounded statement, upon further thought, I came to the realization that the inexperienced junior auditors who are only recently graduated from school do

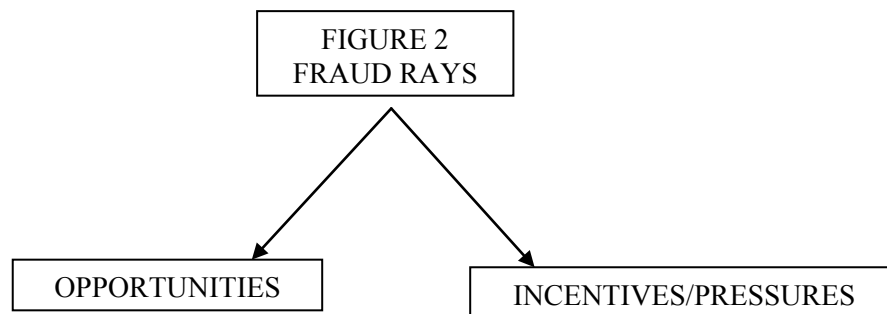
represent a great opportunity for someone committing fraud. How many times do we as senior (or rather more seasoned) auditors leave our new audit staff at a client's office to complete the fieldwork portion of an audit, with nobody there to guide them except the client? Perhaps Mr. Antar has discovered a great opportunity presented in the fraud triangle.

### Attitudes/Rationalizations

1. SAS 99 AU Section 316.85 A.3, relating to misappropriation of assets, recognizes that attitudes/rationalizations are most common to those employees with "behavior indicating displeasure or dissatisfaction with the company or its treatment of the employee." They believe that the actions they perform are not really considered fraudulent as they were entitled since management really owed it for all the years of hard work and service. Additionally, attitudes are often such that there is a "disregard for the need for monitoring or reducing risks related to misappropriations of assets" (SAS 99 AU Section 316.85 A.3). Therefore, auditors must attempt to observe the environment and underlying attitudes present at the client. Based on this observation, the audit must be planned and tailored to ensure that any possible material frauds occurring as a result of attitudes/rationalization are examined during the audit.
2. If you are still bewildered by Antar's last statement, you will be confounded at his critique of this last part of the fraud triangle. He states:

In some cases, in most cases, there's really no rationalization for the crimes. Criminals come up with excuses but they know what they're doing and why they're doing it. They don't have to do it in most cases and that's why I disagree with the rationalization concepts (Antar, 2010).

This last point eliminates one side of the fraud triangle. Antar now leaves us with merely two rays extending out into the far reaches of "audit space" (Figure 2). It is interesting to note that Antar takes the position that rationalization can't be used in audit planning.



### POTENTIAL WEAKNESSES OF THE FRAUD TRIANGLE

Based on these points, I think the profession can agree that the fraud triangle, while an excellent starting point in addressing the risks of fraud in a financial statement audit, does have some potential weaknesses. The points made by Antar, while at first seem to be far-reaching, really do show some potential weaknesses in the fraud triangle with the two most important being:

1. The fraud triangle used against the auditor in that the auditors themselves become an opportunity.

## 2. Eliminating the concept of attitudes/rationalization.

This article follows suit with Dorminey et. al (2010) who state that "professionals and academics have offered important insights that have gone beyond the fraud triangle. These extensions have enhanced professionals' ability to prevent, deter, detect, investigate, and remediate fraud (Dorminey et. al, 2010 p. 17). In that article, the authors do present and examine the fact that the fraud triangle does have some inherent limitations. It was created originally for the "accidental fraudster." They also contend that certain components of the fraud triangle do not really capture all the elements of an individual perpetrating a fraud. For example, "with regard to the fraud triangle, all the predator seeks is opportunity. The predator requires no pressure and needs no rationalization" (Dorminey et al, 2010, p.21). This last part sounds very similar to the logic used by Antar when he discusses his views on rationalization. In addition, the fraud triangle "does not provide a good basis for assessing the likelihood of fraud under conditions of collusion. Yet this is one of the central elements of complex frauds and financial crimes" (Dorminey et al, 2010, p.21). Furthermore, the authors make it a point to stress that pressures and rationalizations are generally non-observable which contradicts SAS 99, at least for rationalization.

### **CONCLUSIONS: WHERE DO WE GO FROM HERE?**

The fraud triangle is still a very powerful asset in planning the audit to detect material misstatement and should never be thought of as anything less. However, this article has exhibited that the fraud triangle needs to be used as a starting point in the audit process and not relied on as the only method to be utilized. The viewpoints expressed by Sam Antar as well as Dorminey et al. demonstrate that auditors need to expand their focus and concentration of fraud to many factors beyond that of the specific guidance issued under SAS 99. They must take a broader view in order to make audits more attuned to the sensitive and devious nature that surrounds fraud. Auditors today must be able to overcome the "Sam Antars" of corporate America, which is not an easy task to do given the fact that forensic accounting methods are usually not required courses for most undergraduate accounting degrees. There are also newer models being introduced to supplement the fraud triangle which auditors may find valuable as well (eg. The MICE Model introduced by Kranacher, Riley, and Wells in *Forensic Accounting and Fraud Examination* which describes fraud in terms of Money, Ideology, Coercion, and Ego). Therefore, academics should be using various case studies and exercises in their accounting and audit classes to enhance the students' analytical ability to heighten their awareness of professional skepticism. Practitioners also need to be constantly re-emphasizing this need for heightened awareness and not rely solely on the fraud triangle as the basis for planning and responding to potential fraud risks on the audit engagement.

### **CASE STUDY METHOD**

As noted above, academics should be using the case study method in their accounting and audit classes. These next sections will describe how I employ the case study method for both my graduate and undergraduate auditing classes.

#### **Introducing the Case Study Method in Class**

Figures 3 and 4 are assignments given in both my undergraduate (Figure 3) and graduate (Figure 4) auditing classes on the first day and are part of the syllabus. The students form groups of two to three students usually since the class size can range anywhere from 15-25 students. If a student is unable to find a team member, then I will assign that person to a team in need of another member. The concept of groupwork is usually very frustrating for most students as they do not like to have their final grade contingent upon the work of a classmate who may not be able to perform to the level of their academic satisfaction. However, I stress to them working in groups is the core of performing an audit. It is necessary to work, collaborate, argue, and think as a team so that audits can be planned to account for the "Sam Antars." I also advise students to try and solve group situations on their own prior to coming to me.

However, should my intervention be needed, groups are advised to approach me prior to handing in the case study. Once a grade has been assigned, I treat it as a sunk cost and cannot do anything retroactively. Prospectively, the group member who is not performing to the satisfaction of the rest of the group is told that if they are unable to work with the group in an equitable manner, their individual grade would have to be adjusted.

**FIGURE 3**  
**UNDERGRADUATE AUDITING CONCEPTS AND ACCOUNTING RESEARCH COURSE**

***Group Case Study Assignments (15%):***

Readings for the course will be a series of 5 cases. The readings for each case will be provided before the scheduled class discussion. Students will be expected to develop a solution strategy for each case and to be prepared to respond to questions, role-play, and/or lead the case discussion. **Three** group written case analyses are also required. Groups will write case analyses for each of the selected cases in the text: [5 points each]

<b>Case 7.8 First Securities Co. of Chicago</b>	Due XXXX
<b>* Case 1.9 ZZZ Best Company, Inc.</b>	Due XXXX
<b>Case 1.8 Crazy Eddie</b>	Due XXXX
<b>Case 1.1 Enron Corp.</b>	Due XXXX

\* When groups present a case study, they do not have to submit a formal case study analysis. However, all groups must still have three case study analyses. Therefore, use this case as an alternative assignment to make sure you have three case studies.

All assignments must be submitted on the assigned due date. **Late assignments will not be accepted under any circumstances. In addition, students will not be given the opportunity to revise or resubmit these assignments so be sure to proof your paper carefully.** The format which groups need to submit in order to obtain full credit for the assignment is as follows:

1. Papers should be typed and submitted on 8 ½ x 11 paper, single-sided, with 12 point Times New Roman font. Papers must be a **minimum** of three full pages. **Format will count towards the grade, so be sure to proof your paper at least once!**
2. **Plagiarism – Under no circumstances may a student use an author’s words without proper citation. To do so is considered plagiarism and will result in an automatic failure for the paper being submitted. If you wish to use an exact phrase from the casebook or any outside reference, please use proper citation when doing so.**
3. **Academic Integrity:**

The faculty and administration of XXXX support an environment free from cheating and plagiarism. Each student is responsible for being aware of what constitutes cheating and plagiarism and for avoiding both. The complete text of the Academic Integrity Policy and the College procedure for implementing that policy can be found at this site: [XXXX](#). If a faculty member suspects a violation of academic integrity and, upon investigation, confirms that violation, or if the student admits the violation, the faculty member **MUST** report the violation. The College policy on academic integrity applies at all times. A copy of the policy is available at: XXXX

#### 4. General Methodology

- a. “Problem” or “Opportunity” Statement (aka. the Critical Issue). Provide a single statement of the critical issue present in the case. If several issues are apparent, identify them in priority order. Generally, several problems are all symptoms of one overriding problem. Try to abstract up to the overriding problem after the symptoms are known.
  - i. i.e. “The critical issue is...”
- b. Critical Factors. **List** (using bullet points) the key factors that give **evidence** that there is a problem or opportunity condition. Identify them in priority order. Explain why they are relevant.
  - i. Critical Factor #1
  - ii. Critical Factor #2
  - iii. Critical Factor #3
  - iv. Etc.
- c. At the end of the case, there are several questions provided by the author. Copy the questions down (single-spaced) and provide your answers to those questions (double-spaced). Answers must be clear and grammatically accurate.

### FIGURE 4 GRADUATE AUDITING CONCEPTS: ADVANCED TOPICS ON ASSURANCE SERVICES

#### ***Group Case Study Assignments: [15%]***

Readings for the course will be a series of several cases. The readings for each case will be provided before the scheduled class discussion. Students will be expected to develop a solution strategy for each case and to be prepared to respond to questions, role-play, and/or lead the case discussion. Three written case analyses are also required. Groups of students will write case analyses for each of the selected cases: [5 points each]

<b>The Enron Collapse</b>	Due XXXX
<b>Callmate Telips (A) Choice of Accounting Policy</b>	Due XXXX
<b>Accounting Fraud at WorldCom</b>	Due XXXX
<b>* Sara Campbell Ltd. (A&amp;B)</b>	Due XXXX

\* To be used as an alternative assignment for those groups who present a case that has a related case study assignment due. In cases where a group makes an oral presentation, they will not be required to hand in a formal written case study assignment. Instead, they will do this case in order to meet the required three case study submissions.

All assignments must be submitted on the assigned due date. **Late assignments will not be accepted under any circumstances. In addition, students will not be given the opportunity to revise or resubmit these assignments so be sure to proof your paper carefully.** The format which students need to submit in order to obtain full credit for the assignment is as follows:

1. Papers should be typed and submitted on 8 ½ x 11 paper, single-sided, with 12 point Times New Roman font. Papers must be a **minimum** of three full pages. **Format will count towards the grade, so be sure to proof your paper at least once!**
2. **Plagiarism – Under no circumstances may a student use an author’s words without proper citation. To do so is considered plagiarism and will result in an automatic failure for the paper being submitted. If you wish to use an exact phrase from the casebook or any outside reference, please use proper citation when doing so.**
3. General Case Study Methodology – A guideline for case study analysis follows. You should be aware that this is essentially the same as the traditional systematic approach to problem-solving. Mastery of this approach will serve you well in any problem solving situation in your professional career.
  - a. “Problem” or “Opportunity” Statement (aka. the Critical Issue). Provide a single statement of the critical issue present in the case. If several issues are apparent, identify them in priority order. Generally, several problems are all symptoms of one overriding problem. Try to abstract up to the overriding problem after the symptoms are known.
    - i. i.e. “The critical issue is...”
  - b. Critical Factors. **List** (using bullet points) the key factors that give **evidence** that there is a problem or opportunity condition. Identify them in priority order. Explain why they are relevant.
    - i. Critical Factor #1
    - ii. Critical Factor #2
    - iii. Critical Factor #3
  - c. Alternative Solutions. Provide a list of possible solutions to fix the various problems found in the case. Explain the advantages and disadvantages of each.
  - d. Recommended Solution and Implementation. Which alternative solution is best? Why? Prepare an action plan of how this solution could be implemented successfully.

### **Case Study Method for a Graduate Auditing Course**

The case study method needs to be tailored to the specific level of course being taught. I use an abbreviated version in my undergraduate course while using the full version in my graduate course. The full case study methodology is:

- a. “Problem” or “Opportunity” Statement (aka. the Critical Issue). Provide a single statement of the critical issue present in the case. If several issues are apparent, identify them in priority order. Generally, several problems are all symptoms of one overriding problem. Try to abstract up to the overriding problem after the symptoms are known.
- b. Critical Factors. **List** (using bullet points) the key factors that give **evidence** that there is a problem or opportunity condition. Identify them in priority order. Explain why they are relevant.
- c. Alternative Solutions. Provide a list of possible solutions to fix the various problems found in the case. Explain the advantages and disadvantages of each.
- d. Recommended Solution and Implementation. Which alternative solution is best? Why? Prepare an action plan of how this solution could be implemented successfully.

I would recommend this approach for a graduate level auditing course. The reason being that the level of analysis in a graduate level course would be conducive to the outline above. Cases for this level of course come from a custom text, which I created with the assistance of Wiley Custom Services, and has cases from Harvard Business School, Institute for Management Development, and Richard Ivey School of Business (to name a few with the majority coming from Harvard Business School). The cases are designed to present a set of facts about a company (sometimes a real company and sometimes not) and an accounting/auditing issue which is facing management. The case will often present the positions taken by management and the auditors. After a series of further facts and sometimes financial analysis, the case ends with no solution or epilogue. This is the point where groups now need to determine the critical issue, factors, and possible solutions to the problem. In a graduate level course, it is important to note that there may be more than one way to interpret a case and, as a result, there may be more than one critical issue. Groups will need to ensure that they are able to support their critical issue with factors.

### **Case Study Method for an Undergraduate Auditing Course**

The undergraduate auditing course has a separate casebook, which is not custom. This casebook does not have any Harvard Business School, Institute for Management Development, and Richard Ivey School of Business cases as that would be too high a level of analysis for an undergraduate student. The casebook uses shorter length cases which also present real world cases as well as some other educational cases. The cases present the same information as would the graduate cases with the major difference being that the undergraduate casebook always has the epilogue/solution. This is why, in lieu of "Alternative Solutions" and "Recommend Solution and Implementation," my undergraduate audit classes are given the following:

- a. At the end of the case, there are several questions provided by the author. Copy the questions down (single-spaced) and provide your answers to those questions (double-spaced). Answers must be clear and grammatically accurate.

These questions are provided by the author of the casebook. It gives the undergraduate students more focus in reading and analyzing the cases. Also, being that these cases are more straightforward, there is always only one critical issue, which makes grading a little easier for the instructor since all groups should arrive at the same conclusion. On a graduate level, the use of answering questions at the end of a case, in my own professional opinion, inhibit their "creative juices" from flowing. This is why I recommend that graduate students come up with suggested solutions, choose the best one, and how that solution should be implemented.

### **Grading**

The case study assignments constitute 15% of the overall final grade, with 5 points going to each of the 3 case studies. I assign points as follows:

A	5 points
B	4 points
C	3 points
D	2 points
F	0 points

The grading varies based on whether the course is undergraduate or graduate. In order for a group in the undergraduate audit course to score the maximum grade ("A"), they need to provide the correct critical issue, the supporting factors (along with any technical references), and detailed answers to the questions. Most times, in the casebook used, the questions require the group to give opinions on the issues presented in the case. This can be quite subjective to grade so I tell groups to give as much of their opinion as possible and avoid using simple one to two sentence answers. Students who tend to support these opinions with proper professional arguments and technical references will score higher. In addition, case studies are expected to conform to a well written executive summary using bullets to support ideas as well as standard English grammar and punctuation. Since sometimes undergraduates may not have had

extensive preparation writing courses up to the level of this course, I may be lenient somewhat. However, I do stress to them that writing skills are important in today's professional environment.

The graduate course is also graded using the same five point scale as noted above. In order for them to earn the A, the case study must give a critical issue supported by proper critical factors. As noted above, the case studies used in a graduate level course come from advanced sources and, as such, may have more than one critical issue. Therefore, as long as the group can present their critical issue with enough supporting factors, it will not hinder the ultimate grade. In addition, groups at this level need to also provide alternative solutions and implementation for the one solution they feel will best solve the critical issue. The solutions and implementation must be feasible and realistic in order to receive credit. For example, groups that simply write that "the law must be changed to stop companies from committing fraud," while indeed noble needs much more elaboration and details. How should the law be changed, what elements are currently lacking or can be expanded, and how can the accounting profession contribute to this solution? In addition, similar to the undergraduate case studies, the level of writing is expected to conform to a well written executive summary using bullets to support ideas as well as standard English grammar and punctuation. Oftentimes, papers will get a B as the case study was written poorly although all the other requirements were perfectly satisfied.

### **Assessment of Case Study Method Approach as a Tool to Strengthen Future Auditors**

In either course, the assessment is similar. The groups tend to work together to try and come up with the critical issue and supporting factors. They are able to discuss and even argue amongst themselves and the rest of the groups if they have differing critical issues. It is rewarding as an instructor to see this because it shows the development of thinking and critical analysis, the skills which Antar accuses junior auditors of being lax. This is the first step in addressing the serious problem which the auditing profession faces in that junior audit staff are vulnerable to the many "Sam Antars." Antar's statement that junior auditor "give us the opportunity to commit our crimes" (Antar, 2010) may now face some challenges if academics assign students the case study method. By assigning these cases, academics can not only reinforce the subject matter contained within the textbooks, but can further develop the skills involved with research and critical analysis, which is something present on all financial statement audit engagements. Perhaps now we can send the next generation of auditors into the field with some more tools to defend against the Sam Antars of the corporate world!

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## **Spousal Interviews of Applicants for Employment: A Legal and Ethical Dilemma**

**Gary Waldron  
Nova Southeastern University**

*This article analyzes the legal and ethical issues of an employer asking a job applicant to provide his/her spouse for an interview, presumably to inquire whether the spouse is aware of the applicant's job duties/requirements. These interviews are permitted under many state laws, while forbidden for most federal employment interviews. Aside from the legality of the interview, the associated ethical philosophies that may impact the decision to interview an applicant's spouse are discussed. The practical implications of interviewing the applicant's spouse are the most important consideration in determining the wisdom of the spousal interview.*

### **INTRODUCTION**

Teaching a course on ethics in a business school is not easy. Not that it is harder work than teaching other subjects, but it is amorphous in nature. What is ethical in a classical investor oriented corporation may be regarded unethical in a stakeholder oriented corporation. What may be on the verge of legality today, and many would consider unethical, may tomorrow indeed become illegal. Society frequently reacts to perceived unethical behavior and presses for legislative mandated change to make the conduct illegal.

The purpose of this article is to provide a legal and ethical analysis of a pre-employment practice some companies use, particularly for sales candidates, of requesting an interview with the candidate's spouse. Many of these jobs require flexible work hours and often have no salary, because the income is derived from commissions earned. To assure that the candidate's spouse is "on board" with the hours and fluctuating income, the employer may request that the spouse be interviewed as well as the candidate.

Little can be found in the body of research literature dealing with this important subject; yet it is apparent that the subject surfaces from time to time, since it is addressed in some government publications, as well as university hiring regulations.

The research and discussion in this article leads to practical suggestions for employment and interviewing managers.

### **HIRING SALES PEOPLE**

When discussing sales positions, we focus on what is functionally called the outside sales job. These may often involve a territory or district. The sales people may travel throughout a territory promoting their products or services. Many such jobs have no base salary and income is derived from the

commissions earned on each sale. A good example is an insurance sales associate and financial services representative.

Insurance companies invest large sums of money to develop good sales men and women. The larger insurance companies usually pay a limited small upfront salary for the initial training period, but soon the sales person must survive on straight commissions. Understandably, insurance companies do not want to hire an applicant for a sales job without some idea of whether the candidate could meet the rigorous job requirements in the field. The candidate has to be able to prospect and find customers; take a beating when told “I’m not interested, don’t call me again”; go weeks without making a sale, which means not having a pay check; and work hours when the customer can meet with them such as at night, weekends or whenever.

Most major insurance companies ask candidates for sales positions to take some kind of personality test. An organization that does key research for insurance companies is LIMRA International that conducts research for hundreds of companies around the world. LIMRA developed a personality test for candidates for insurance sales. (LIMRA, 2005) One key aspect of the test is to identify dynamic — ambitious, competitive, and assertive candidates. (LIMRA, n.d.). These tests, it is hoped, will identify the right candidate for the job.

“Make the sale” kind of person is what these companies are looking for. The general description is one who is confident, self imposing, and independent. The successful financial services representative can make hundreds of thousands of dollars a year and may be considered a workaholic. These sales men and women also make the companies they work for large profits.

Of course these personality tests cannot identify family issues and pressures that may have an effect on the applicant outside his or her personality traits.

The hiring interview process is an important step to find the right person, for which a company is willing to invest time, training, and money. Applicant testing is one way to obtain personal traits information, but this information needs further validation through probing interviews. Some companies use these personality tests as the only determinate criteria for hiring. This article does not delve into the ethical issues in this regard, but others have explored this area. What will be discussed are the legal and ethical considerations of continuing the interview process to include an interview of a candidate’s spouse.

## **THE SPOUSAL INTERVIEW**

Some companies request or even require an applicant for a sales position to provide the opportunity to interview the spouse. Presumably this interview is to make sure the spouse understands the positive and negative aspects of the sales career. (Corkhill, 1991) The sales position requires long hours, possible weeks before pay checks, and in need of caring support at home when times get tough. Most insurance companies are members of GAMA International, an organization which supports the industry with research and education. GAMA Foundation commissioned a study in 2002 which, among many factors in recruiting successful sales people states: “High-performing field leaders involve spouses in the selection process to ensure that they are aware of the time commitment required for success.” (GAMA, 2003, p. 2). The study shows that those taking the survey in the study indicated that the spousal interview was of moderate importance.

Of course these concerns are not limited to insurance sales people, outside sales people, or territorial managers. CEOs of companies, General Managers, Managing Directors, Executive Vice Presidents, Presidents, Senior Vice Presidents, and so on have similar pressures, job time consumption and a need for a caring person at home, too. What they don’t have, however, is the possibility of receiving no pay check for a period of time. Not having a regular weekly income may be problematic for many households.

If the job requires living abroad, companies certainly want to know what the spouse of the candidate thinks about moving the family, and most spouses would welcome the opportunity to explore the living arrangements, schooling for the children, etc..

At this point it should be noted that a request to interview an employee’s spouse has less risks than a request to interview the spouse of a candidate for an employment position. While there may be questions

raised about employment discrimination in promotions of employees, there is always a question of discrimination in the pre-employment process of hiring candidates.

On the face, it appears that an interview of the spouse of a candidate for employment presents legitimate business interests. Could there be, however, other underlying issues that the employer wishes to explore, which are masked by the legitimate business interest? Is there a legal or ethical concern when asking for the interview with a candidate's spouse?

## LEGAL ANALYSIS OF INTERVIEWING THE SPOUSE

The question arises: Is asking about a spouse looking into the marital status of the applicant for employment? Is marital status a protected class under anti-discrimination employment law? Is it legal to request a potential hire to provide his/her spouse for a job interview? If it is illegal, generally a discussion about the ethics of it becomes moot.

The Equal Employment Opportunity Commission (2006), which investigates and enforces federal employment law states:

“The federal antidiscrimination laws do not prohibit discrimination on the basis of marital status, but some states do prohibit such on this basis. Moreover, the federal prohibition against sex discrimination would be violated if an employer were to treat men and women differently based on their marital status or existence of dependents. For example, an employer would violate Title VII if it would hire men with children but not women with children. *See* EEOC Guidelines on Discrimination Because of Sex, 29 C.F.R. § 1604.4.”

Interestingly, Federal Employees have more protection as mentioned by the Chairwoman of the EEOC in January 2011:

“EEOC employees are protected by federal laws prohibiting discrimination on the basis of race, religion, color, sex (including pregnancy and gender identity), national origin, age, disability, family medical history, or genetic information. Moreover, consistent with Presidential Executive Orders and other laws designed to protect federal employees, we must vigilantly prevent discrimination based on sexual orientation, parental status, marital status, political affiliation, military service, or any other non-merit based factor.” (Office of the Chair).

The Equal Employment Opportunity Commission what may be considered “best practices”:

“Generally, employers should not use non job-related questions involving marital status, number and/or ages of children or dependents, or names of spouses or children of the applicant. Such inquiries may be asked after an employment offer has been made and accepted if needed for insurance or other legitimate business purposes. The following pre-employment inquiries may be regarded as evidence of intent to discriminate when asked in the pre-employment context: Whether applicant is pregnant. Marital status of applicant or whether applicant plans to marry.” (EEOC, n.d.).

The lesson here is that should an employer, such as Wal-Mart <sup>1</sup>, be accused and sued for gender discrimination, the legal prohibition cannot be based on discrimination because of marital status in a Federal lawsuit. Should the employer have inquired into the marital status of a potential employee during the interview, this may juxtapose evidence of the gender bias, for which the complaining employees seek damages. For the employer to request to speak to a spouse, with the intent to interview the spouse of the candidate, is an obvious inquiry into marital status.

For example, if the employer inquires about the family of a female employee during a job interview and consistently does this with female employees, this may help establish a pattern of conduct, which indicates a nonbusiness interest in the matter. If later the female employees believe that they are passed over for promotions, because of their family responsibilities as mothers, this is alleged gender based discrimination. The pre-employment interview questions about the family is not prohibited, but may be evidence pointing to the alleged gender discrimination.

The Federal Question is not the end of the legal concerns, because there are states which have passed stricter laws than the Federal Code on employment discrimination. California Department of Fair Employment and Housing published a guide (n.d.) for legal and illegal questions that may be asked during an interview. Questions which indicate the applicant's marital status or number of children are unacceptable questions. Thus in California it would appear to be illegal to ask to interview an applicant's spouse, because the question would be an inquiry into the marital status of the applicant.

The Center for WorkLife Law, housed at the University of California Hastings College of the Law, published an Employer Alert (2010). The alert addresses "How to Avoid Family Responsibility Discrimination in Interviews?" It states:

"We are often asked if it is illegal to ask questions about family responsibilities in an interview. The answer is, like all good legal answers, "it depends." If the employer is in Connecticut, the District of Columbia, or one of the counties or cities that has expressly prohibited family responsibilities discrimination by statute, then the answer is that it is most likely illegal. If the employer is not in one of those jurisdictions, the answer is that it is illegal if the questions are asked (and the answers presumably relied upon) only of female candidates. In such a situation, the questions would likely constitute sex discrimination. Regardless of whether such questions are illegal, they certainly are too risky to be a good business practice." (Emphasis added)

Clearly asking a candidate to interview the spouse implicates a desire to determine family responsibilities. In the interview of a spouse it would be difficult to avoid discussions about family needs, income, children, and the work requirements of the spouse. "Are you a working mother?" "Who would take care of the children?" "Do you have any concerns if your wife were required to work late evening hours?" Once that door is opened, then the employer must walk a thin line to not discriminate in hiring based on the information obtained about the family responsibilities. Employers must be aware of the legal prohibitions in job discrimination<sup>2</sup> in the states they make hiring decisions.

Today there are other questions that arise when discussing spousal interviews. In same-sex relationships, commitments, unions, or even legal marriage a request for a spousal interview takes on other dimensions. There are no federal laws prohibiting sexual orientation discrimination in private sector employment, however, President Clinton did sign an order "to prohibit discrimination in employment because of race, color, religion, sex, national origin, handicap, age, or sexual orientation...of civilian employees of the federal government..." (Executive Order 13087).

Complicating the issue of asking same-sex couples to provide the non-applicant "spouse" for an initial interview, is whether the employer provides health and other benefits to same-sex couples, and how are these benefits determined? Some corporations do not provide any benefits to such couples, and therefore, a request to speak to the other partner of the applicant is suspect. Other employers, who do provide some benefits, may determine the status of the couple from various perspectives, thus complicating further this entire inquiry (Becker, 1995, p. 96). Should the employer, prior to hiring, inquire into what kind of relationship the applicant is in; is there a legal basis for the relationship under city, county, or state law; are unmarried heterosexual relationships included in a request to interview the applicant's significant other?

Could the request to interview a candidate's spouse be an attempt to determine the sexual orientation of the candidate? If discrimination in employment on the basis of sexual orientation follows, it may violate local law. There are 139 cities and counties which have banned discrimination in employment

based on sexual orientation and twenty states prohibit such discrimination, while 12 states ban it indirectly under gender bias laws. (Human Rights Campaign).

An employer's request to interview the spouse of a potential employee is probative evidence that could help establish a sexual orientation employment discrimination case, if the employer has been sued in that respect.

As reviewed, Federal employee law doesn't directly affect our inquiry into employment spousal interviews, but state law may, depending on where the employment is situated. Beyond the legal ramifications there are questions of appropriateness and ethics?

## **ETHICAL ANALYSIS OF INTERVIEWING THE SPOUSE**

This preliminary question should be asked: Is it wise to conduct spousal interviews, when it is not illegal?

If an applicant is asked whether they are married in the interview process, followed by a request to interview the spouse, it may put a veil of suspicion on the hiring process. "The employer's initial moral obligation is to acquire and retain only such individually identical employee information that is directly pertinent to, and necessary for, effective performance, competent management, or some other appropriate business purpose. The employer generally does not possess a legitimate right to know certain aspects of an employee's personal life..." (Cavico & Mujtaba, 2009, p. 253)

The question of what is an appropriate business purpose is an ethical issue, but it also enters a mine field which may affect legal actions under the jurisdiction of the Equal Employment Opportunity Commission. "Absent a business need, it would be prudent to avoid making such inquiries because...if a selection decision is challenged, the inquiries will be evidence that those factors influenced the employment decision..." (2006) in other illegal status discrimination.

When an ethical issue is not addressed and left to over-ripen, it often becomes an ethical dilemma where there is no good resolution of the matter left. The issue may be just a set of circumstances that leave the "decider" no good choices. Clearly in the pre-employment interview process, when an employer requests to interview the spouse of an applicant for employment an ethical issue arises. What if the candidate is a great candidate, did well on job aptitude tests, and has an excellent background, but in the interview with the spouse, it is determined that she/he is not comfortable with the candidate spouse taking this position? Has the interview developed into an ethical dilemma? If the qualified candidate is not hired for the job, is this a good decision? If the applicant is hired, and it causes trouble at home, was this a good decision, knowing the spousal concerns from the interview?

From the philosophy of teleology's utilitarian view, if the interview of an applicant sales person's spouse creates more good for the company in selecting the best candidate and helps the applicant's home relations, then the interview is appropriate. This then is an ethical basis for the decision to interview a candidate's spouse, which should bring about the most good for all involved. Tranquility at home is preserved and the company should have a more productive worker, with the spousal support. Consider whether the utilitarian would actually come to this conclusion. If the spousal interview results in an ethical dilemma, described above, the utilitarian may reach a different conclusion.

It may be reasoned that interviewing the spouse of an outside sales candidate is a moral obligation, because of the high divorce rates in the country and divorces can affect work production of the employee. If the candidate's spouse does not want his/her spouse to take this kind of job, ultimately it could lead to divorce. Two problems occur with this reasoning: (1) research does not confirm that outside sales people have an extreme rate of divorce, and (2) the individual, if given the typical personality test for this kind of position, is ambitious, competitive, and assertive, but is also warm and friendly, which are general qualities sought for an outside sales person. (LIMRA) A married person with these attributes has probably worked out any personal problems regarding personality with his/her spouse prior to landing the outside sales job.

Research (McCoy & Aamodt, 2010) shows that sales people in this category represent 17.65% divorce rate, about half way down the occupational list, and far down from number one - dancers and

choreographers at 43.05% or telemarketers at 28.10%. Other research indicates that white-collar workers, who work nonstandard work schedules such as nights and weekends, do have more stress which tends to spill over into the family relationship (Davis, Goodman, & Almeida, 2008) and creates strain on marriages. In research conducted by Presser (2000) some correlation was found between nonstandard work schedules and instable marriages, but only under certain variables such as ages and presence of children.

While there may be other “means justify the ends” ethical arguments made, there is no evidence that reducing the divorce rate of employees in sales jobs is an end result of interviewing the applicant’s spouse to detect any frustrations about the potential job that may be derived from such an interview.

Fortune reports that in the unemployed rich market, caused by the down turn in the economy, many companies have introduced a new interview process consisting of asking applicants ridiculous questions to narrow their hiring decisions. How many balloons would fit in this room? Rate yourself in how weird you are? (Fisher, 2011) If narrowing the field of available and qualified applicants is the purpose of these questions, why not use them in an interview? If these questions are appropriate, why not interview the applicant’s spouse, with the purpose of narrowing the applicants?

A deontologist would see an interview of an applicant’s spouse as an employee privacy rights issue and conclude that even asking an employee about marital status - married, divorced, engaged, or in a same-sex union, is an unethical act. This invasion of privacy is impermissible regardless that the end result is to find an effective sales person.

Unlike the schools of teleology where the end result is justified by the means to obtain a desirable good, those of deontology ethical persuasion focus on established rights that must be used in decisions which produce the end. It makes no difference if the end results in a poor outcome. (Ferrell, Fraedrich & Ferrell, 2009, p. 154).

Many scholars believe that there are some basic principles that we can all agree on that should be the beginning of ethical conduct. Respect for human beings seems like a good place to start. In Immanuel Kant’s early writings, he believed that treating humans as an end and not as a means is a “practical imperative” (Kant, 1959, p. 47). The principle, therefore, is to treat people with respect. Thus humans should not be used as a means. Understanding that people have dignity and free will is why they deserve respect, is an underlying proposition of Kant. (Bowie, 1999, p. 63-78).

The Global Sullivan Principles (The Sullivan Foundation, n.d.), is an attempt to achieve basic principles of ethics for corporations conducting business in other countries and multinational corporations. The foundation of these principles synchronizes with Kant’s philosophy. These principles may be redacted to respect for human rights by corporations. If global principles are Kantian based, then perhaps the ethical answer to the issue of this article has more relevance through Kant and deontology.

In a simpler way, The Golden Rule may suffice: do unto others as you would have them do unto you. Or perhaps Josias Franklin’s teaching of young Benjamin Franklin that “what is not strictly honest can never be truly useful” (Weems, 1854, p. 12) would be supportive of the proposition for an honest business reason to know the thoughts of the spouse of an applicant for employment.

While universities are not outside sales agents, their business schools turn out thousands of graduated business professionals with bachelor degrees and MBAs. It is important for universities to set standards of ethical behavior that must be adhered to and a culture for all of the stakeholders. (Smith, 2002). Many graduates of these schools go on to be the interviewers in the hiring process for corporations.

Are universities more influenced by the deontology philosophy when it comes to job interviews? Cunningham (2007, p.154) argues that universities would be more ethically responsible, were they to use the philosophy of justice. While justice is associated with deontology, it is more specific in its goals. In hiring professors and staff, a university may target demographics of the candidate. If justice demands a more diverse demographic organization, would it be appropriate to ask an applicant whether or not they have a civil union, and if so may the interviewer ask to interview the significant other? Cunningham understands alternative views and invites discussion on university ethical philosophy. He asserts a dominant theory focuses on the end, i.e. to be the best university. (p. 158)

In his excellent and thought provoking article describing a good professor, J. Angelo Corlett (2005, p. 38) makes the case that deontology rules are paramount standards for a good professor. If deontology is the ethical foundation, then the hiring of good professors would likely follow the same basic concepts. If so, it is not surprising that some universities strictly forbid asking questions of applicants for employment about their marital status. The University of North Carolina's legal office forbids such questions (n.d.). In Purdue University's publication, *The Hiring Process* (2005), this example is given:

"In an actual university interview, an applicant was asked what his wife did for a living. He answered. 'What does my wife have to do with me and this job?'...These types of questions can be considered discriminatory, and you're asking them could cause legal problems. Here's the rule: If the question is not job related, don't ask it."

At the beginning of this article, I mentioned that a course on Business Ethics is difficult to teach. I have been giving students an ethical assessment at the beginning of my Business Ethics course. The fact situation is this issue about an employer asking an applicant for an outside sales position to interview the applicant's spouse. Approximately 80% of the students believe that there is some ethical problem with the request to interview the spouse. This first impression about ethics, prior to sitting through the course is interesting. The perception that the spousal interview is not right is given from many view points, i.e. it is illegal, it is discriminatory, it is an invasion of privacy, it is none of the employer's business, etc.

The women students in particular, took offense of the request to interview the husband spouse, when it was suggested that the woman was the applicant. Many felt it was asking the husband for permission to allow his wife to work. Many women stated that they would not work for an employer, who asked this question.

This unadulterated feeling of my students may be the general view of society. The overwhelming feeling that such an interview is unethical drives home the point that ethical or not, is it a good business practice for employers to impose upon the private realm of an applicant?

## **ADVICE FOR EMPLOYERS**

In the end, the perceptions of what is right or wrong are likely the practical guide to our question about interviewing an applicant/candidate's spouse in the hiring process.

Employers have dealt with the various Federal and State laws which deal with employment discrimination for years. Recently there has been a trend in the decisions of the United States Supreme Court (*Gross v. FBL Financial Services, Inc.*) to weaken the ability to successfully bring these discrimination suits against employers. For now, employers would be well advised to consider the legacy of forty years of implementation of these laws as just good business practice and continue the policies of the previous legal interpretations.

Employers do not make business decisions just to comply with laws and regulations. Culture and ethical values influence decisions as well. If a company has a caring culture, where employees are valued highly, asking a potential employee to provide the spouse for an interview seems to be counter-culture. Even a company which values production over its employees concerns may find this issue as counter-productive, particularly if it operates throughout the United States. The company is faced with many state laws that forbid asking marital questions of interviewees for employment. The burden of policing the interviewers from state to state with different policies does not help productivity.

According to Ciulla, Martin & Solomon (2011):

"Business often try to devise objective standards for hiring, salaries, firing, and promotion, but these standards do not always take into account the fact that fallible human beings implement them and apply them to a varied pool of people, some of them very different from themselves." (p. 2).

The recently enacted New York Marriage Equality Act (New York, Bill A08354 2011) which permits same-sex marriage, increases the number of jurisdictions that legalize same-sex marriage and civil unions. An employer who requests a spousal interview may be intruding further into the potential employee's private life. Should such applicant not be hired, it would be good evidence supporting a sexual orientation discrimination claim, in states, counties and cities which make this illegal.

In my Business Ethics class ethical assessment, I asked an additional question of whether an employee in a same-sex union should be required to provide his/her partner for the "spousal" interview. Nearly all of the students responded that if the employer required a spousal interview, then it should include an interview with the spouse of a same-sex union. Nearly all of the students also concluded that this was unethical, but required in order to be consistent with the company policy.

Just how far should an employer take our question? Should an inquiry be made about a "significant other"? If the issue that is to be vetted is whether there may be problems in the applicant's personal life because of the long hours and uncertain income in a sales position, and this could harm the employee's job performance, then the conclusion must be that the interview process extends further than legal marriage. Logical conclusions do not always make practical sense.

An article in *HR Magazine* (Wells, 2007) suggests employers may want to know about the marital status of employees in order to balance the inequities single individuals may see in the variant treatment of employees. If an employer provides more benefits/funding of benefits for married employees than for single employees, or if the employer permits a different work schedule for married employees to accommodate family needs, these may create problems in the work place. The question of marital status should be asked after employment to rectify these human resources concerns. Asking prior to employment continues to be problematic, while asking afterward may justify the business need to know.

## CONCLUSION

While many employers believe that there is good justification to ask for an interview of a prospective employee's spouse, certainly to interview every candidate's spouse for all kinds of jobs is not appropriate in any situation. The possible bad that can come from such a policy is evident: Is the employer really looking for insurance coverage requirements verging into disability discrimination? Could it be a desire to discriminate in employment based on gender? Without a business need to know, such questions are lurking in the background. If the job requires the applicant to move to another country and thus move the family, there is an obvious business need to know whether the applicant's spouse is prepared to make such move. In this circumstance interviewing the spouse appears appropriate.

Between these two ends is the general outside sales job. Whether it is ethical or unethical depends on personal and corporate culture values in answering the question about interviewing the applicant's spouse. Whether it is legal or illegal depends on the state law that is controlling. If there are other alleged violations of anti-discriminatory Federal employment law, the interview of the spouse of an applicant helps, evidentiary, make the case for discrimination.

It is likely that a spousal interview will create an ethical dilemma, which leaves the employer in a quandary. What may be the best answer is if it is not directly job related don't ask.

## ENDNOTES

1. The Supreme Court of the United States determined that Wal-Mart could not be sued in a class-action lawsuit for gender discrimination. The suit claimed that women at Wal-Mart were treated differently than men in pay and promotions. The Court did not reach the substantive claims, but rather ruled against the method of the lawsuit procedure, i.e. a huge class action suit. *Wal-Mart Stores, Inc. v. Dukes, et al.* (10-277) \_\_\_ US \_\_\_ (2011).

2. Alaska Statute §18.80.220; D.C. Code § 2-1402.11, Human Rights Act, Conn. General Statute § 46a-60(a)(1); Wisconsin Fair Employment Act §111.345; California Government Code § 12940-12951, *et al.*

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