LEADERS INFLUENCE CORPORATE CULTURE

Organizational leaders can shape and influence corporate culture for the good and bad. A fundamental question about leaders is the distinction between good and ethical. A good leader is one that does well for the stakeholders of the corporation. Good leaders are effective at getting followers to their common goals or objectives in the most effective and efficient way. The stakeholders who have the most influence on the leader and his or her objectives determine the "good." In this context, Bernie Madoff could be considered a "good leader" in that he made investors happy by reporting stable and steady returns when others were not. Ken Lay and Jeffery Skilling were good in that they transformed Enron from a small oil and gas pipeline firm into one of the largest entities in its industry. They were inspirational, imaginative, creative, and they motivated their personnel to achieve. But all three were not good in the long term as it relates to ethics. Ethical leaders lead by example. They have integrity. Integrity gives way to respect. David Neeleman, founder and CEO of JetBlue Airlines, put it this way: "People do a better job if they respect the leader of the company".[35] Consistency counts as a leader. Many believe that being ethical means not being competitive. The following successful business leaders show examples to the contrary:

> *Ethical leaders lead by example.*

- Dave Checketts, former CEO of Madison Square Garden Corporation: "Whether it is television, sports, or business, it's always about winning. I have always run very, very deep that way. When it comes to being competitive, I'm off the map, way over the top."
- David Neeleman, founder and CEO of JetBlue: "Down deep in my gut I hate it when someone else does something better than me."
- Kevin Rollins, CEO of Dell: "I hate to lose! I don't want to hurt people to win. But I want to win"

The use of power and influence shapes corporate culture. *Power* refers to the influence that leaders and managers have over the behavior and decisions of subordinates. An individual has power over others when his or her presence causes them to behave differently. Exerting power is one way to influence the ethical decision making framework described in Chapter 5 (especially significant others and opportunity).

The status and power of leaders is directly related to the amount of pressure that they can exert on employees to conform to their expectations. A superior in an authority position can put strong pressure on employees to comply, even when their personal ethical values conflict with the superior's wishes. For example, a manager might say to a subordinate, "I want the confidential data about our competitor's sales on my desk by Monday morning, and I don't care how you get it." A subordinate who values his or her job or who does not realize the ethical questions involved may feel pressure to do something unethical to obtain the data.

There are five power bases from which one person may influence another: (1) reward power, (2) coercive power, (3) legitimate power, (4) expert power, and (5) referent power.[36] These five bases of power can be used to motivate individuals either ethically or unethically.

Reward Power

Reward power refers to a person's ability to influence the behavior of others by offering them something desirable. Typical rewards might be money, status, or promotion.

Consider, for example, a retail salesperson who has two watches (a Timex and a Movado) for sale. Let's assume that the Movado is of higher quality than the Timex but is priced about the same. In the absence of any form of reward power, the salesperson would logically attempt to sell the Movado watch. However, if Timex gave him an extra 10 percent commission, he would probably focus his efforts on selling the Timex. This "carrot dangling" and incentives have been shown to be very effective in getting people to change their behavior in the long run. In the short run, however, it is not as effective as coercive power.

Coercive Power

Coercive power is essentially the opposite of reward power. Instead of rewarding a person for doing something, coercive power penalizes actions or behavior. As an example, suppose a valuable client asks an industrial salesperson for a bribe and insinuates that he will take his business elsewhere if his demands are not met. Although the salesperson believes bribery is unethical, her boss has told her that she must keep the client happy or lose her chance at promotion. The boss is imposing a negative sanction if certain actions are not performed. Many companies have used a system whereby they systematically fire the lowest performing employees in their organization on an annual basis. GE's Jack Welch is perhaps the most known for supporting a "vitality curve" that annually terminated the lowest 10 percent of employees. Enron called it "rank and yank" and annually fired the lowest 20 percent. Motorola, Dow Chemical, and Microsoft have used similar systems for firing employees.[37] Coercive power relies on fear to change behavior. For this reason, it has been found to be more effective in changing behavior in the short run than in the long run. Coercion is often employed in situations where there is an extreme imbalance in power. However, people who are continually subjected to coercion may seek a counterbalance by aligning themselves with other, more powerful persons or by simply leaving the organization. In firms that use coercive power, relationships usually break down in the long run. Power is an ethical issue not only for individuals but also for work groups that establish policy for large corporations.

Legitimate Power

Legitimate power stems from the belief that a certain person has the right to exert influence and that certain others have an obligation to accept it. The titles and positions of authority that organizations bestow on individuals appeal to this traditional view of power. Many people readily acquiesce to those who wield legitimate power, sometimes committing acts that are contrary to their beliefs and values. Betty Vinson, an accountant at WorldCom, objected to her supervisor's requests to produce improper accounting entries in an effort to conceal WorldCom's deteriorating financial condition. She finally gave in to their requests, being told this was the only way to save the company. She and other WorldCom accountants eventually pled guilty to conspiracy and fraud charges. She was sentenced to five months in prison and five months of house arrest.[38]

Such staunch loyalty to authority figures can also be seen in corporations that have strong charismatic leaders and centralized structures. In business, if a superior tells an employee to increase sales "no matter what it takes" and that employee has a strong affiliation to legitimate power, the employee may try anything to fulfill that order.

Expert Power

Expert power is derived from a person's knowledge (or the perception that the person possesses knowledge). Expert power usually stems from a superior's credibility with subordinates. Credibility, and thus expert power, is positively related to the number of years that a person has worked in a firm or industry, the person's education, or the honors that he or she has received for performance. Others who perceive a person to be an expert on a specific topic can also confer expert power on him or her. A relatively low-level secretary may have expert power because he or she knows specific details about how the business operates and can even make suggestions on how to inflate revenue through expense reimbursements.

Expert power may cause ethical problems when it is used to manipulate others or to gain an unfair advantage. Physicians, lawyers, or consultants can take unfair advantage of unknowing clients, for example. Accounting firms may gain extra income by ignoring concerns about the accuracy of financial data that they are provided in an audit.

Referent Power

Referent power may exist when one person perceives that his or her goals or objectives are similar to another's. The second person may attempt to influence the first to take actions that will lead both to achieve their objectives. Because they share the same objective, the person influenced by the other will perceive the other's use of referent power as beneficial. For this power relationship to be effective, however, some sort of empathy must exist between the individuals. Identification with others helps boost the decision maker's confidence when making a decision, thus increasing his or her referent power.

> *"People typically use several power bases to effect change in others."*

Consider the following situation: Lisa Jones, a manager in the accounting department of a manufacturing firm, has asked Michael Wong, a salesperson, to speed up the delivery of sales contracts, which usually take about one month to process after a deal is reached. Michael protests that he is not to blame for the slow process. Rather than threaten to slow delivery of Michael's commission checks (coercive power), Lisa makes use of referent power. She invites Michael to lunch, and they discuss some of their work concerns, including the problem of slow-moving documentation. They agree that if document processing cannot be speeded up, both will be hurt. Lisa then suggests that Michael start faxing contracts instead of mailing them. He agrees to give it a try, and within several weeks the contracts are moving faster. Lisa's job is made easier, and Michael gets his commission checks a little sooner.

The five bases of power are not mutually exclusive. People typically use several power bases to effect change in others. Although power in itself is neither ethical nor unethical, its use can raise ethical issues. Sometimes a leader uses power to manipulate a situation or a person's values in a way that creates a conflict with the person's value structure. For example, a manager who forces an employee to choose between staying home with his sick child and keeping his job is using coercive power, which creates a direct conflict with the employee's values. The trappings of power can become all-encompassing for some. In business, titles and salary signify power. But power and wealth often breed arrogance and are easily abused.

In a McKinsey survey, power and leadership used to support environmental, social, and governance programs was found to create shareholder value. The Vitamin Cottage, a regional health-oriented grocery store, banned all traditional shopping bags starting on Earth Day 2009. Customers have to bring their own reusable bags or take their grocery items out in recycled boxes. The grocery stores targeting the health conscious (Whole

Foods, Sunflower Market, Vitamin Cottage, etc.) have taken a leadership position in supporting minimizing their negative impact upon the environment.[39]

MOTIVATING ETHICAL BEHAVIOR

A leader's ability to motivate subordinates plays a key role in maintaining an ethical organization. **Motivation** is a force within the individual that focuses his or her behavior toward achieving a goal. **Job performance** is considered to be a function of ability and motivation, thus Job performance = ability × motivation, meaning that employees can be motivated, but resources and know-how are also needed to get the job done. To create motivation, an organization offers incentives to encourage employees to work toward organizational objectives. Understanding motivation is important to the effective management of people, and it also helps explain their ethical behavior. For example, a person who aspires to higher positions in an organization may sabotage a coworker's project so as to make that person look bad. This unethical behavior is directly related to the first employee's ambition (motivation) to rise in the organization. Employees want to feel they are a good fit with their organization, have a clear understanding of job expectations, be supported in their role, and be valued and inspired to perform well. Towers-Perrin-ISR conducted a study that showed that there was a 52 percent gap in performance in operating income between companies with highly engaged and motivated employees versus those with low engagement.[40]

As businesspeople move into middle management and beyond, higher-order needs (social, esteem, and recognition) tend to become more important than lower-order needs (salary, safety, and job security). Research has shown that an individual's career stage, age, organization size, and geographic location affect the relative priority that he or she gives to satisfying respect, self-esteem, and basic physiological needs.

From an ethics perspective, needs or goals may change as a person progresses through the ranks of the company. This shift may cause or help solve problems depending on that person's current ethical status relative to the company or society. For example, junior executives might inflate purchase or sales orders, overbill time worked on projects, or accept cash gratuities if they are worried about providing for their families' basic physical necessities. As they continue up the ladder and are able to fulfill these needs, such concerns may become less important. Consequently, these managers may go back to obeying company policy or culture and be more concerned with internal recognition and achievement than their families' physical needs.

An individual's hierarchy of needs may influence his or her motivation and ethical behavior. After basic needs such as food, working conditions (existence needs), and survival are satisfied, relatedness needs and growth needs become important. **Relatedness needs** are satisfied by social and interpersonal relationships, and **growth needs** are satisfied by creative or productive activities.[41] Consider what happens when a new employee, Jill Taylor, joins a company. At first Jill is concerned about working conditions, pay, and security (existence needs). After some time on the job, she feels she has satisfied these needs and begins to focus on developing good interpersonal relations with coworkers. When these relatedness needs have been satisfied, Jill wants to advance to a more challenging job. However, she learns that a higher-level job would require her to travel a lot. She greatly values her family life and feels that travel and nights away from home would not be good for her. She decides, therefore, not to work toward a promotion (resulting in a "need frustration"). Instead, she decides to focus on furthering good interpersonal relations with her coworkers. This is termed *frustration-regression* because, to reduce her anxiety, Jill is now focusing on an area (interpersonal relations) not related to her main problem: the need for a more challenging job. In this example, Jill's need for promotion has been modified by her values. To feel productive, she attempts to fill her needs by going back to an earlier stage in her hierarchy of needs. Whatever her present job is, Jill would continue to emphasize high performance in it. But this regression creates frustration that may lead Jill to seek other employment.

Examining the role that motivation plays in ethics offers a way to relate business ethics to the broader social context in which workers live and the deeper moral assumptions on which society depends. Workers are individuals and they will be motivated by a variety of personal interests. Although we keep emphasizing that managers are positioned to exert pressure and force individuals' compliance on ethically related issues, we also acknowledge that an individual's personal ethics and needs will significantly affect his or her ethical decisions.

ORGANIZATIONAL STRUCTURE AND BUSINESS ETHICS

An organization's structure is important to the study of business ethics because the various roles and job descriptions that comprise that structure may create opportunities for unethical behavior. The structure of organizations can be described in many ways. For simplicity's sake, we discuss two broad categories of organizational structures—centralized and decentralized. Note that these are not mutually exclusive structures; in the real world, organizational structures exist on a continuum. Table 7–5 compares some strengths and weaknesses of centralized and decentralized structures.

In a **centralized organization**, decision making authority is concentrated in the hands of top-level managers, and little authority is delegated to lower levels. Responsibility, both internal and external, rests with top-level managers. This structure is especially suited for organizations that make high-risk decisions and whose lower-level managers are not highly skilled in decision making. It is also suitable for organizations in which production processes are routine and efficiency is of primary importance. These organizations are usually extremely bureaucratic, and the division of labor is typically very well defined. Each worker knows his or her job and what is specifically expected, and each has a clear understanding of how to carry out assigned tasks. Centralized organizations stress formal rules, policies, and procedures, backed up with elaborate control systems. Their codes of ethics may specify the techniques to be used for decision making. General Motors, the Internal Revenue Service, and the U.S. Army are examples of centralized organizations.

Because of their top-down approach and the distance between employee and decision maker, centralized organizational structures can lead to unethical acts. If the centralized organization is very bureaucratic, some employees may behave according to "the letter of the law" rather than the spirit. For example, a centralized organization can have a policy about bribes that does not include wording about donating to a client's favorite charity before or after a sale. Such donations or gifts can, in some cases, be construed as a tacit bribe because the employee buyer could be swayed by the donation, or gift, to act in a less than favorable way or not to act in the best interests of his or her firm.