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LEADERSHIP AND THE USE OF POWER: SHAPING AN ETHICAL CLIMATE

Abstract: Leaders have several tools at their disposal to reinforce an ethical work climate. Five sources of power available to leaders are explored. These sources of power fall into the two broad categories of positional power and personal power. It is hypothesized that personal power may be more effective than positional power in promoting ethical conduct. Specific suggestions for the most effective use of power are provided to leaders.

Keywords: *Leadership, ethical work climate, ethical conduct, sources of power, personal power, positional power*

One of the most difficult leadership challenges in all organizations is to create and maintain an ethical climate. From a financial perspective alone, the importance of strong leadership in this arena is clear. The Association of Certified Fraud Examiners (2010) estimated that fraudulent activity results in annual global business losses of \$2.9 trillion. This figure translates to the typical organization losing 5% of its annual revenue to fraud, with nearly one-quarter of frauds involving losses of at least \$1 million. These losses are not restricted to large organizations; small organizations are particularly vulnerable to occupational fraud as they typically lack adequate control systems. Due to the enormous cost of unethical organizational practices, it is important to identify tools leaders can use to mitigate harm to the organization.

Extensive research has focused on the role of leadership in establishing and sustaining an ethical climate, and past research has demonstrated that a strong relationship exists between ethical climate and ethical behavior (Mayer, Kuenzi, & Greenbaum, 2009). “Ethical climate,” as defined by Victor and Cullen (1987), constitutes “the shared perception of what is correct behavior, and how ethical situations

should be handled in an organization” (p. 51). As employees understand what is acceptable within an organizational context, their ethical choices can be shaped (Kish-Gephart, Harrison, & Trevino, 2010).

Leaders have a unique opportunity to shape an ethical climate because they have access to power. As such, it is important to understand how they can more effectively use power at their disposal. The classic study on power was conducted by French and Raven (1959) over fifty years ago. According to French and Raven, leaders have access to five distinct sources of power:

1. Legitimate. This source of power comes from a belief that the leader has the authority to make demands and can expect compliance from others.
2. Reward. This source of power stems from a leader’s ability to provide rewards or inducements to employees.
3. Expert. This source of power is acquired from the knowledge and skills possessed by a leader.
4. Referent. This source of power results from the leader’s perceived attractiveness, charisma or likeability.
5. Coercive. This source of power is based on fear of the leader and the belief that the leader can punish others for noncompliance.

While French and Raven’s (1959) taxonomy remains a popular and frequently utilized conceptualization of power, a number of other taxonomies and further refinements of the model have been developed over the past 50 years (Elias, 2008). Although these newer taxonomies have identified additional sources of power, all these sources of power generally fall into two broad dimensions: positional power (power originating from the position) and personal power (power originating from within the person). Both of these dimensions, and the five specific sources of power identified by French and Raven, will be linked to a leader’s ability to mold an organization’s ethical climate. The relative advantages and disadvantages of employing each source of power will also be examined.

Positional Power

Leaders can exert influence over an ethical climate by virtue of the position held.

Legitimate Power

Leaders in official positions or holding certain job titles typically have access to power. As part of their formal responsibilities, leaders are expected to create a vision for an organization, to set forth key organizational values, and to design structures and processes in support of

that vision and values. Organizational members will typically agree that those in leadership roles have the authority to request certain behaviors from employees in support of the stated vision and values.

To create and maintain an ethical work climate, leaders may use their power to design the following structures:

1. Hiring strategies to recruit others who reflect and are aligned with organizational values.
2. Orientation sessions to convey values of the firm.
3. Mentoring programs to expose new hires to employees who reflect values of the organization. As the Council for Advancement and Support of Education (2012) notes, new employees can be “paired with successful, engaged superstars who live and breathe your [organization’s] values, and they’ll imitate those feelings and behaviors” (p. 1).
4. Training opportunities to reinforce basic values. Frequent reinforcement of organizational values by the leader is important: “Articulate them at every opportunity, from all-staff meetings to culture-specific training sessions” (Council for Advancement and Support of Education, 2012, p. 1).
5. Ethical codes of conduct to clarify what is right and wrong in a particular organization.
6. Whistle blower protection for those employees who may want to report unethical practices.

Unfortunately, some of the strategies associated with the exercise of legitimate power may have limited utility. Schein (1990) noted that organizational climate is only the surface manifestation of culture, and “many organizational change programs that failed probably did so because they ignored cultural forces in the organizations in which they were to be installed” (p. 118). Trevino (1986) found that ethical codes of conduct were not effective unless those codes were consistent with the organizational culture and were enforced. Similarly, almost 25 years later, a meta-analysis by Kish-Gephart, Harrison, and Trevino (2010) revealed that the existence of codes of conduct had no noticeable impact on employees’ ethical choices. Indeed, such codes may be perceived by employees solely as a source of protection for top management in the event of legal improprieties within the organization.

Reward Power

Extensive research on ethical behavior strongly supports the conclusion that if ethical behavior is desired, the performance measurement, appraisal and reward systems must promote ethical behavior (Sims, 1992). Leaders can determine the allocation of valued incentives such as promotions, bonuses, raises, attractive work assignments, time off and compliments. Trevino and Brown (2005) and Trevino (1986) observed that rewards can send powerful messages to employees

supporting ethical or unethical conduct. “Senior managers need to work hard to catch new hires doing things right . . . then recognize and reward them for those behaviors” (Council for Advancement and Support of Education, 2012, p. 1). Hegarty and Sims (1978) empirically demonstrated that “if unethical decision making is rewarded, then higher incidence of unethical behavior is likely to occur” (p. 456).

The challenge presented by the use of reward power is that some of the rewards may have limited perceived value to the employee. A compliment in lieu of a lucrative financial payoff may not be a sufficient incentive for an employee. Moreover, the ethical conduct may not be observed by top leadership. Finally, some rewards, such as salary increases or promotions, may be controlled by, or more heavily influenced by, direct supervisors within the organization. If these supervisors do not share the same values as top leadership, employees are likely to be rewarded for behaviors using performance metrics more salient to the supervisor.

Coercive Power

Leaders can punish employees within an organization for noncompliance with ethical mandates by firing, demotion, reprimands, threats, denials of privilege, undesirable work assignments and other disincentives. Trevino and Brown (2005) determined that negative sanctions can send powerful messages throughout an organization about the appropriateness of unethical conduct, and Hegarty and Sims (1978) found that the threat of punishment discourages unethical conduct. The impact of coercive power can extend beyond the individual engaged in unethical conduct. By observing how other employees are disciplined for infractions, employees can learn vicariously about the consequences of unethical conduct and the leadership stance on such conduct.

There is a challenge with the use of coercive power. Employees may choose not to engage in unethical conduct for “the wrong reason.” They may not participate in an unethical act due to a fear of being caught, rather than because they believe that the action is intrinsically unethical. As Bazerman and Tenbrunsel (2011) observed, a sanctioning approach to unethical conduct may increase the probability that employees contemplating an unethical act will engage in a cost-benefit analysis rather than evaluate the behavior on its own merits. If employees assess that there is a low probability of detection for engaging in unethical conduct, the impact of coercive power to shape an ethical climate may be limited.

Personal Power

Leaders can exert influence over an ethical climate by virtue of their own abilities and personalities.

Expert Power

A leader can gain power through recognition as an expert in a specific field. To be perceived as knowledgeable about ethical issues, a leader needs to gain a deep understanding of ethical challenges that organizational members may face. For the leader to exert expert power effectively, the leader needs to ensure that other organizational members are aware of the leader's interest in and understanding of ethical challenges. With this awareness, employees may look to the leader for direction and guidance when confronted with ethical choices. As such, the leader will need to gain expertise in the area of ethics, promote an image of perceived expertise, maintain credibility, exert firm leadership, keep updated on advances, recognize concerns of employees, and avoid threatening the self-esteem of employees (Bhardwaj, 2008).

Further, a leader's understanding of ethics needs to extend beyond ethical challenges facing an industry to a personal ethical framework. Trevino and Brown (2005) observed that ethical leaders made decisions based on values and ethical decision rules. Since 25 years of research concludes that the ethical philosophies of management have a major impact on the ethical behavior of employees (Sims, 1992), it may be important for leaders to recognize the importance of developing their own ethical guidelines.

Due to excessive work demands and time constraints, leaders may not develop an ethical philosophy or a knowledge base about ethical issues facing their employees. They may also fail to fully comprehend the associated costs of unethical conduct. Thomas, Schermerhorn, and Dienhart (2004) contend that the potential business costs of ethics failures are chronically undervalued in executive decision-making due to lack of knowledge and common reasoning errors. They define three levels of cost with increasing complexity of calculation: Level 1 costs (e.g., government fines and penalties), Level 2 costs (e.g., corrective actions and remedial education), and Level 3 costs (e.g., loss of reputation, employee cynicism, and government regulations). Thomas et al. maintain that "only with awareness of all relevant stakeholders and full realization of the special devastation that all levels of costs can wreak will business leaders feel the urgency to take ethics seriously" (p. 60).

Leaders will often defer to the Office of Human Resources or to attorneys to determine what is or is not acceptable conduct, and messages regarding unethical conduct may emanate solely from these sources. Such an approach may send a message to employees that observance of ethical conduct is much more of a legal matter rather than an organizational value firmly supported by a leader.

Referent Power

Leaders can influence others if they are admired and liked by others, and if employees can identify with the leader. Leaders need to not only state organizational values, but to make known that their own values and ethics are consistent with the organization's values. To convey their values, leaders may engage in storytelling, have informal conversations with employees, listen with interest and concern to others about ethical dilemmas they face, and address employee concerns with a persuasive appeal to engage in ethical conduct.

Social learning theory posits that ethical modeling by leaders can influence organizational members' ethical conduct. Role modeling is a powerful means for transmitting values, attitudes and behaviors (Trevino & Brown, 2004). Brown and Trevino (2006) claim that ethical leadership may relate to increased follower ethical decision-making, increased prosocial behavior, decreased counterproductive behavior, as well as increased follower satisfaction, motivation and commitment.

A challenge for those with referent power is that they may only be perceived by employees from a distance and, as such, ethical leadership is largely a reputational phenomenon. If top level executives are not highly visible and active role models who communicate a strong message about ethics throughout the organization, employees may not know the leaders' stance on ethics, or may perceive leaders to be "ethically neutral." Indeed, direct supervisors are more frequently observed than top level executives, so the referent power of senior executives may be muted or contradicted if direct supervisors send a different message. Supervisors often translate messages from senior executives and make those messages real through interaction with employees and by setting daily expectations (Trevino & Brown, 2004). Further, a strong organizational culture may override any messages sent either by senior executives or immediate supervisors.

Discussion and Conclusion

Leaders have access to a variety of sources of power and all these sources can be employed to enhance an ethical work climate. Some

sources stem from the position leaders hold, and others emanate from their persona. However, there is little research on the most effective sources of power to influence ethical conduct, and there is limited practical guidance for leaders seeking to harness the power at their disposal. Yukl (1981) maintained that the most effective leaders rely more on personal power than on position power, but the application of this assertion to ethical conduct in the 21st-century workplace has not been tested.

However, research into the philosophic underpinnings of ethics programs by Weaver and Trevino (1999) offers fruitful insight. They explored the orientation of ethics programs in an effort to better understand the impact of those programs on employees. They conceptualized ethics programs as having either a “compliance orientation” (emphasizing behavioral monitoring and discipline for noncompliance) or a “values orientation” (making an employee’s ethical role identity more salient). They determined that both a compliance and values orientation contribute to employee advice seeking, ethical awareness, better decision making, and reduced unethical behavior, but concluded that a values orientation has a “larger unique impact on these outcomes” (p. 331).

By extending their findings, one might hypothesize that the use of personal power may be more effective than positional power in promoting ethical conduct. Since positional power is based on obedience to authority, rewards, and punishments, it is possible that ethics programs based on a leader’s positional power may promote a “compliance orientation.” As personal power relies more upon the skills, abilities and traits of a leader, ethics programs relying on a leader’s personal power may reflect a stronger “values orientation.” If so, there may be much to be gained by organizational leaders becoming more visible and respected role models for ethical conduct. Leaders today can use social media to convey their personal values more widely across an organization and to reflect a depth of knowledge about ethical practices and the impact of unethical conduct on an organization.

Each of French and Raven’s (1959) sources of power has unique advantages and limitations for leaders. Further research is needed to determine which sources of power, or combination of sources of power, may be most effective in helping a leader to create and maintain an ethical work climate. Research is also needed to explore how the personality of the leader, characteristics of employees, and the underlying culture may interact and influence the efficacy of different power sources.

While the challenges in shaping an ethical work climate are legion,

the financial and social costs of unethical behavior in the workplace require leadership commitment to this task. By a richer understanding and more effective use of the power at their disposal, leaders can play a major role in addressing this societal problem of significant proportion.

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