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The roles of vertical and shared leadership in the enactment of executive corruption: Implications for research and practice

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ABSTRACT

Recent scandals involving executive leadership have vaulted the topic of executive corruption to a central concern in the organizational literature. History suggests that power can corrupt and that absolute power can be an especially toxic influence. In this paper we propose that the propensity for corruption (as measured by CEO responsibility disposition) of leaders and the degree to which leadership is shared are key factors in understanding the potential for executive corruption. More specifically, shared leadership is proposed as a moderator that can deter corruptive tendencies by providing checks and balances capable of reducing the potential for corrupt behavior. A conceptual model is offered along with propositions to help guide future research and practice.

1. Introduction

Recent executive leadership scandals, reflecting dramatic misuse of power, have significantly contributed to the topic of corruption becoming an important concern in the organizational literature. Cases of financial deception in organizations, driven by top executives seeking personal gain, at the expense of their employees and other organizational stakeholders, have elevated corruption to the status of becoming one of the major challenges for management thought and practice in the 21st Century. In an analysis of corruption reported in the business news, Clement (2006) reported that, between January 2000 and June 2005, 40 corporations in the *Fortune 100* reported behaviors that can be considered unethical. This report suggests that corruption has reached epidemic proportions.

Some believe that leadership is the key to understanding corruption (Bass, 1990; Gardner, 1986). Accordingly, in this paper, we focus specifically on the role of executive leadership (e.g., the Chief Executive Officer and the top management team) in the enactment or prevention of corruption at the pinnacle of our organizations. Even well before recent highly visible corporate scandals, historical surveys of *Harvard Business Review* readers found "behaviors of superiors" to be the top ranked factor associated with unethical decisions (Baumhart, 1961; Brenner & Molander, 1977).

Ashforth & Anand (2003) point out that leaders play a potentially major role in the institutionalization of corruption because their behavior may ignore, condone or even reward corrupt behaviors. Ultimately, as the legitimized agents of the organization, leaders, especially at the upper echelons, can be in a position to essentially authorize corruption (Ashforth & Anand, 2003; Brief, Buttram, & Duckerich, 2001). As one specific example, Tourish & Vatcha (2005) provide a fascinating account of how leaders at Enron created a culture based on charismatic leadership, conformity, and suppression of dissent. Further, DeCelles & Pfarrer (2004) point out that a "villain" charismatic leader, as opposed to the traditional "heroic" charismatic leader may influence wrongdoing. Finally, Ashforth & Anand (2003) describe a process of how corruption can become "normalized" in a modern business organization.

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We present a straightforward view of the role of leadership in executive corruption. First, we propose that the CEO's responsibility disposition—the extent to which one has high moral standards, feels an obligation to do the proper thing, is highly concerned about the welfare of others, and has a high degree of self-judgment or critical evaluation of one's own character (Winter, 1991)—is directly and negatively related to executive corruption. Second, we propose that the CEO's use of empowering leadership–leader behavior specifically focused on the encouragement of leadership from below (Pearce, Sims, Cox, Ball, Schnell, Smith, & Trevino, 2003)—is likely to affect the development of shared leadership among the top management team.

Shared leadership has been defined as "a dynamic, interactive influence process among individuals in groups for which the objective is to lead one another to the achievement of group or organizational goals or both. This influence process often involves peer, or lateral, influence and at other times involves upward or downward hierarchical influence" (Pearce & Conger, 2003, p. 1). In this paper, we assert that shared leadership can be a critical factor in deterring executive corruption. Finally, we define executive corruption as engagement in unethical behavior that is of direct benefit to the actor(s), at the expense of other important organizational stakeholders and not in the long-term interest of the organization as a whole.

While we acknowledge that strong centralization of leadership, under certain circumstances, may retard corruption (such as when a culture with corruptive norms is being transformed under the influence of a new leader), we posit that in general shared leadership, a form of decentralization of power, can generally provide a buffer against corruption. Nevertheless, we believe the predisposition of the leader for corruptive behavior is the primary driver of executive corruption.

Part of our argument concerning the deterring influence of shared leadership rests in the notion of balance of power. Balance of power is a concept that has guided nation building and international dynamics (Klitgaard, 1988). Indeed, checks and balances are purposely built into nearly all facets of our social lives, from civic endeavors to the creation and administration of the laws that govern our lands. Even our military organizations rely deeply on checks and balances (Shamir & Lapidot, 2003).

While boards of directors, whose role it is to oversee the activities of top management, would seem to serve this purpose, some corporate board seats are occupied by members of the firms' top management teams. In addition, boards are frequently chaired by the CEO of the organization. Add to this the existence of "interlocking directorates" (Monks & Minow, 2001), where the members of various top management teams serve on each other's boards, and it appears that checks and balances are often lacking at the board level in today's modern organizations. In this paper, our main thesis is: If the chief executive is predisposed toward corruptive acts, decentralizing power and influence via shared leadership can significantly deter corruption (Gardner, 1986).

2. Corruption and executive leadership

One estimate is that yearly organizational losses from corruption amount to billions of dollars (Murphy, 1993). Corrupt behavior has been given close scrutiny by both scholars (see Ashforth & Anand, 2003; Giacalone & Greenberg, 1997; Hegarty & Sims, 1978, 1979; Mangione & Quinn, 1975) and practitioners (e.g. Caudron, 1998). Research on corrupt employee behavior has found that it can take a wide-ranging variety of forms including sabotage (Giacalone, Rosenfeld, & Riordan, 1997), theft (Greenburg, 1997; Horning, 1970; Mars, 1974) and anticitizenship behavior (Ball, Sims, & Treviño, 1994; Pearce & Giacalone, 2003). The common thread that binds these terms and activities is that they are unethical, directly benefit the actor(s), and are not in the long term interest of the organization as a whole.

Research has suggested several factors that might lead to executive corruption (Anand, Ashforth, & Joshi, 2004; Ashforth & Anand, 2003; Giacalone & Knouse, 1990; Mumford, Helton, Decker, Connelly, & Van Doorn, 2003; Treviño, 1986; Treviño & Brown, 2004; Treviño, Hartman, & Brown, 2000). Philosophical perspectives have focused on the role of standards for moral behavior. In contrast, psychological views have taken more of an agent's perspective, with particular attention given to individual differences (Singer, 2000). Some examples of individual characteristics relating to corruption include level of cognitive moral development (Kohlberg, 1969), locus of control (Treviño, 1986), motives to create favorable impressions (DePaulo, DePaulo, Tang, & Swaim, 1989), and Machiavellianism (Giacalone & Knouse, 1990).

While most studies have focused on corruption in lower levels of organizations (Mars, 1982), we fully expect similar, yet more profound, effects in the upper echelons of organizations, precisely because the CEO controls the resources and sets the tone for the rest of the top management team and research by Robinson & O'Leary-Kelly (1998) supports this logic. We are especially interested in the potential moderating role of shared leadership relative to the relationship between the CEO's responsibility disposition and actual enactment of executive corruption.

3. Shared leadership: a potential buffer against executive corruption

Shared leadership involves a process where all members of a team are fully engaged in the leadership of the team: Shared leadership entails a simultaneous, ongoing, mutual influence process involving the serial emergence of official as well as unofficial leaders (Pearce & Conger, 2003). Since shared leadership inherently includes a sharing of power and influence (with all members possessing significant power and exercising meaningful influence as needed in the process of performing work) it naturally tends to help create a set of leadership "checks and balances" in the overall leadership system (see Higgins & Maciariello, 2004).

Shared leadership tends to create what Cox, Pearce, & Sims (2003: 172) describe as "a more robust, flexible, and dynamic leadership infrastructure." While shared leadership is a relatively new concept in the literature, there have been several studies of the phenomenon (Avolio, Jung, Murry, & Sivasubramaniam, 1996; Ensley, Hmieleski, & Pearce, 2006; Hooker & Csikszentmihalyi, 2003; Pearce, 1997; Pearce & Sims, 2002; Pearce, Yoo, & Alavi, 2004; Shamir & Lapidot, 2003). The initial evidence, across a variety of contexts, suggests that shared leadership can have a powerful effect on team and organizational outcomes.