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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.

To date, three empirical studies have directly assessed the effects of centralized, vertical leadership and the effects of decentralized, shared leadership on several important outcomes. First, Pearce (1997) and Pearce & Sims (2002) studied 71 change management teams (CMTs) from the automotive industry in the U.S. The CMTs in this research were cross-functional and highly interdependent. The CMTs were also semi-permanent. They were expected to initiate and contribute new ideas for enhanced productivity, product quality, and quality of work life, on an on-going basis. While the CMTs were not fully self-managing, they were at an advanced form of empowerment and had considerable autonomy in their own spheres of operations. The research findings indicated that decentralized, shared leadership was a better predictor of team effectiveness in comparison to centralized, vertical leadership. Of particular importance here, Pearce (1997) found decentralized, shared leadership to be more effective than centralized, vertical leadership in reducing the dysfunctional, and at times seemingly corrupt, practice of anticitizenship behavior.

Second, Pearce et al. (2004) studied 28 virtual teams of community revitalization experts from across the United States. The team members were participants in an educational program and the action-learning project for each team involved the development of a community revitalization plan for a small city in the mid-Atlantic United States. The membership of each team was carefully constructed so that team members were geographically dispersed and so that the teams were as heterogeneous as possible. Participants were given 10 weeks to complete the community revitalization plan via communication technology, i.e., without face-to-face communication. The results of this study similarly found decentralized, shared leadership to be a more important predictor than centralized, vertical leadership of several team outcomes, including problem-solving quality.

Finally, Ensley et al. (2006) examined the leadership of entrepreneurial top management teams (TMTs), in a two sample study. The first sample, which included 66 top management teams, was comprised of the top management teams from the December 1998 *inc.* 500 list. The *inc.* 500 is a group of private firms that are among the fastest growing in the United States. As a component of the selection process for the *inc.* 500 the firms must submit audited financial statements. The second sample was comprised of a random national sample of 154 entrepreneurial top management teams drawn from the Dun & Bradstreet Market Identifiers database. The researchers found decentralized, shared leadership to account for a significant amount of variance in new venture performance beyond the effects of vertical leadership, in both samples.

Taken together, these three studies suggest that shared leadership may indeed provide a more robust leadership system than relying only on leadership that is traditional, more centralized and vertical in nature. Most notably, the Ensley et al. (2006) study specifically demonstrated the applicability of shared leadership at the executive level. Even more salient to this paper, the Pearce (1997) study directly links shared leadership to the possibility of driving out dysfunctional and potentially corrupt practices.

4. Theoretical model and research propositions

4.1. Leader predisposition and corruption

Individuals have different propensities to engage in corrupt behavior (Giacalone & Greenberg, 1997). Reasons for these different predispositions are based on a variety of factors and individual characteristics. For example, one's current ethical behavioral standards, as well as other individual differences, have been examined in past research (Singer, 2000). More specifically, factors such as an individual's current level of cognitive moral development (Kohlberg, 1969) or locus of control (Treviño, 1986) have been studied. Other considerations linked to engaging in corrupt activity have included Machiavellianism (Giacalone & Knouse, 1990) and motives to create favorable impressions (DePaulo et al., 1989).

In this paper, we focus on a specific individual characteristic that has been largely overlooked in past research. Specifically we focus on a leader's *responsibility disposition*. Based on McCelland's (1975) work on motivation, House & Howell (1992) draw a distinction between personalized and socialized power orientations that differentiate leaders. The key distinction between these types of power orientations is captured in the leader's responsibility disposition (Winter, 1991). Leaders high in socialized need for power tend to have a high responsibility disposition, whereas leaders high in personalized need for power tend to have a low responsibility disposition.

Mumford et al. (2003) found that individuals whose values stressed contributions to others, as opposed to personal gain, exhibited greater integrity when confronted with ethical decision making dilemmas. Accordingly, these types of leaders could be expected to apply restraint in their use of power, and could be more likely to use their influence to achieve goals and objectives for the betterment of the collective entity, rather than for personal gain (House & Howell, 1992). Overall, this suggests that leaders that are high in need for socialized power, and thus desire power for the good of the collective as opposed to being preoccupied with their own personal gain, will not only display higher responsibility disposition, they will consequently be less likely to engage in corruptive behavior.

In contrast, leaders high in need for personalized power, and concomitantly low in responsibility disposition, desire positions of power for their personal aggrandizement, as opposed to the benefit of the collective (Conger, 1990; Hogan, Curphy, & Hogan, 1994). These types of leaders can often be described as narcissistic (Hogan, 1994; Hogan et al., 1994; Kets de Vries, 1993; Maccoby, 2004). They are generally quite skilled at impression management and are keenly focused on finding ways to enhance their personal image (Gardner & Avolio, 1998; Giacalone, Knouse, & Pearce, 1998). Moreover, they persuasively stress the importance of personal allegiance to themselves as the leader, as opposed to loyalty to the greater organization (Hogan et al., 1994). Moreover, upon ascension to the position of CEO they are likely to campaign for the position of chair of the board as a means of further solidifying their personal hold on power in the organization.

Accordingly, leaders with low responsibility disposition seem likely to rely on the centralization of power and to use the influence they garner in corrupt manners, if for no other reason than to maintain and strengthen their position of power (Kipnis, 1976). As Hogan et al. (1994) noted, these types of narcissistic leaders often experience great difficulty in building a team because of their strong desire to exercise power over others. As such, we believe the leader's responsibility disposition plays a key role in the potential for executive corruption. The following main effect proposition more formally articulates this viewpoint and this logic is graphically depicted in Fig. 1.

P1. *The CEO's responsibility disposition is negatively related to executive corruption, such that those with a low responsibility disposition will generally engender higher levels of executive corruption, whereas those with a high responsibility disposition will generally engender lower levels of executive corruption.*

4.2. Empowering leadership and shared leadership

Empowering leadership from the CEO is a critical element in creating shared leadership in the top management team (Houghton, Neck, & Manz, 2003). Empowering leadership behaviors encourage the development of followers who can make independent decisions, think and act autonomously without direct supervision, and generally take responsibility for their own work behaviors (Conger & Kanungo, 1988; Manz & Sims, 2001). Moreover, the empowering leadership process strives to create followers who are capable of teamwork and effective shared leadership (Manz & Sims, 1989, 2001; Houghton et al., 2003).

Empowering leadership entails modeling effective self-leadership behaviors and advocating the use of shared leadership within the team (Houghton et al., 2003). Empowering leadership focuses on viewing mistakes as learning opportunities (Manz & Sims, 1989, 2001), as well as having a primary emphasis on listening and asking questions rather than talking and providing answers. An empowering leader strives to replace conformity and dependence among followers with initiative, creativity, independence, and interdependence (Houghton et al., 2003). The critical element to our model here is the notion that shared leadership is created and developed by empowering leadership from above. Several empirical studies by Pearce and colleagues have identified a positive relationship between empowering leadership from above and the development of shared leadership in teams, including top management teams (e.g., Ensley et al., 2006; Pearce, 1997; Pearce & Sims, 2002; Pearce et al., 2004). This relationship is shown in Fig. 1, and is represented by the following proposition:

P2. *The CEO's empowering leadership is positively related to shared leadership in the top management team.*

4.3. Shared leadership and corruption

The empirical evidence on shared leadership, to date, has consistently linked it with positive organizational outcomes (Avolio et al., 1996; Ensley et al., 2006; Hooker & Csikszentmihalyi, 2003; Pearce, 1997; Pearce & Sims, 2002; Pearce et al., 2004; Shamir & Lapidot, 2003). Most of the studies have examined some dimension of performance, however, several have examined other constructs, such as team dynamics. Most related to our purpose, Pearce (1997) found shared leadership to be an effective mitigation against the emergence of anticitizenship behavior in teams. Pearce defined anticitizenship behavior as including defiance and avoidance of work, and is also similar to the concept called counterproductive work behavior. Further, Baker, Hunt, & Andrews (2006) found a link between citizenship and ethical behavior.

While anticitizenship behavior may not rise to the level of Enron-like corruption, it clearly serves as a preliminary indicator that supports our analysis here: Once certain forms of corrupt behavior are tolerated a slippery slope is encountered where other more egregious forms become tolerated and the cycle continues (Anand et al., 2004; Ashforth & Anand, 2003; Gladwell, 2000). As such, and in line with Kipnis (1976), shared leadership appears to provide a buffer against corruptive influences. More specifically we view shared leadership as an important moderator of the relationship between predisposition of the CEO for corruption (as measured by responsibility disposition) and engagement in corruption at the executive level of the organization. The crux of our argument is that shared leadership can provide a robust system of leadership checks and balances, thereby acting as a moderator of

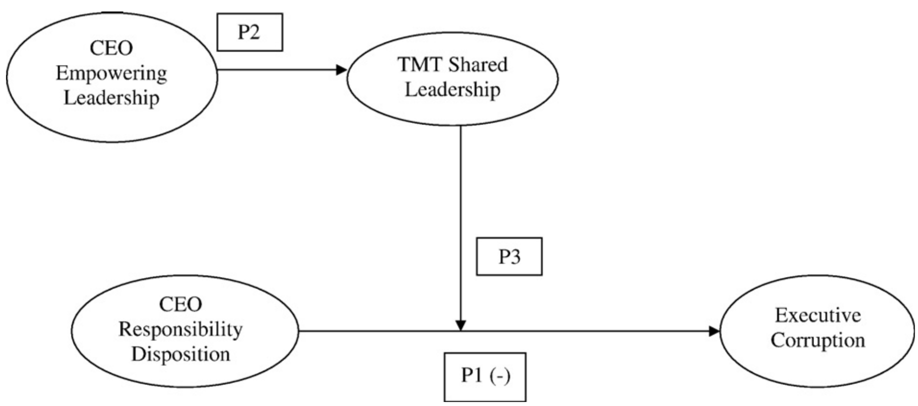

Fig. 1. Theoretical model of CEO responsibility disposition and empowering leadership, top management team shared leadership, and executive corruption.

the relationship between CEO responsibility predisposition and executive corruption. The following proposition more formally articulates this predictive relationship.

P3. *Shared leadership will moderate the relationship between CEO predisposition for corruption (responsibility disposition) and executive corruption. Specifically, when shared leadership is high, the negative relationship between CEO responsibility disposition and corruption will be weaker. When shared leadership is low, the negative relationship between leader responsibility disposition and corruption will be stronger.*

5. Implications

There are several potentially profound implications for the study and practice of leadership that can be derived from the model we presented. For instance, our model, building on the work of scholars investigating shared leadership (e.g., Pearce & Conger, 2003; Pearce & Sims, 2002), distributed leadership (e.g., Day, Gronn, & Salas, 2004; Gronn, 2002) and multi-level leadership (e.g., Hunt, 1996), suggests that the way leadership is framed and conceived may need to be significantly modified in order to mitigate against corruptive tendencies in executive leadership. Most theories of leadership specify leadership as a role of a designated individual and as such, unwittingly, promote centralization of power. Our model suggests that notions of leadership need to be significantly expanded so that it can be viewed as a transferable and quite fluid process that not only can be performed by multiple individuals as events unfold but also can largely reside within the very individuals that are being influenced.

The framing of leadership as a role that is held by a single individual designated as the leader potentially sets into motion the centralization of power that can plant the seeds of corruption (Kipnis, 1976). One perspective that can provide an explanation for this tendency is offered by tournament theory (Lazear & Rosen, 1981; Main, O'Reilly, & Wade, 1993; Rosen, 1986). According to tournament theory members of an organization are contestants in a tournament to win power and wealth, with the ultimate prize being ascension to the role of CEO. Using tournament theory as a foil, centralized views of leadership may foster a tendency for organization members occupying leadership roles to see their charge as that of exerting influence over others with little or no input from those being led. This may also create a tendency for some individuals to view leadership as a prize to be won in a quest for increased power, career achievement and wealth that justifies personalized power and its inherent self-serving wielding of influence (McCelland, 1975). Accordingly, to the extent that our theories evolve toward incorporating a broader conceptualization of leadership, research will logically expand our knowledge regarding the leadership process. In particular, more research directly examining relationships between shared leadership and corruption could be especially important.

Another interesting implication of our model relates to what Bass, Waldman, Avolio, & Bebb (1987) labeled the “falling dominoes effect”. These researchers found that subordinates tended to emulate the transformational leadership they experienced from above, and used the term to capture that effect. More recently, Pearce & Sims (2002), identified that this domino effect also applies to less desirable types of leadership. Namely, they found that the best predictor of aversive leadership—the use of threats and intimidation, and the like—by followers was the aversive leadership of the team leader. Moreover, Robinson & O'Leary-Kelly (1998) found that work groups influence the extent of antisocial behavior displayed by group members. As Schein (1992) so astutely noted, leadership and organizational culture are inextricably linked.

While we have focused on the role of leadership in executive corruption, we believe that corrupt practices at the top are quite likely to have broad and profound emulative influences throughout the organization. Accordingly, leader selection is paramount when it comes to inoculating the organization against the potential for corrupt business practices (Mumford & Manley, 2003). Such selection processes might pay particular attention to considerations such as the responsibility disposition of the candidate as well as leadership orientations that may or may not be consistent with sharing of leadership influence.

Training and development of leaders represents another important area to consider for guarding against potential corruption (Charan, 2005). Unfortunately, research suggests that insufficient attention is given to this need in organizations (Pearce, 2004): For example, the American Society for Training and Development (ASTD) has indicated that most employees receive less than 24 h of training annually. Moreover, the vast majority of leadership development is focused on those individuals who are currently in formal leadership positions or have been identified as leadership candidates, as opposed to providing leadership skills learning opportunities to the wider work force which typically represents an important source of leadership for the future (Pearce, 2007). Thus, it would seem that training and development efforts that offer the potential to inculcate ethical behavior, decision making practices, and influence tactics into the wider organization culture for all employees may fast be becoming a responsibility of contemporary organizations in general. As Gioia (2002, 2003) and Treviño & McCabe (1994) have observed, this responsibility is not solely that of the organization, but also one that requires attention in institutions of higher learning. Accordingly, leadership development is an area that requires serious attention, particularly as we move beyond the traditional top–down model of leadership to one that involves sharing of leadership influence. Providing training on shared leadership would seem to be an especially fruitful area to pursue (Cox et al., 2003). Nevertheless, the efficacy of this approach needs to be verified by future research.

6. Conclusion

Overall, it seems clear that shared leadership deserves more theoretical and empirical attention. It offers fruitful ground for the study of an important under researched leadership perspective, and as a promising approach for ameliorating potential corruptive tendencies in executive leadership. Greater emphasis on shared leadership, both in research and practice, may well offer the potential to inoculate organizations against the possibility of future Enron and World Com type scandals arising from leaders predisposed to act in self-serving corrupt ways.

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