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In order to attain a desired level of job performance in any work setting, a number of factors are often considered. This paper discussed how work ethic affects workers job performance by evaluating how either strong work ethics (SWE) or weak work ethics (WWE) can contribute to encouraging or discouraging workers job performance. Although instances of excellent performance amidst unethical practices have been recorded however, a sustainable performance can only be achieved through strong work ethics. The extent to which employee encourages integrity, sense of responsibility, quality, self-discipline and sense of teamwork in work discharge determine either strong work ethics or weak work ethics contribute to job performance level. Literature review and theoretical ground point towards the need for workers' to promote ethical practice and discourage unethical acts which can undermine corporate image and excellent performance. This study proposes that strong work ethics results in excellent work performance.
GUIDELINES FOR SUBMISSION

Journal of Leadership, Accountability and Ethics (JLAЕ)

Domain Statement

The Journal of Leadership, Accountability and Ethics is dedicated to the advancement and dissemination of business and management knowledge by publishing, through a blind, refereed process, ongoing results of research in accordance with international scientific or scholarly standards. Articles are written by business leaders, policy analysts and active researchers for an audience of specialists, practitioners and students. Articles of regional interest are welcome, especially those dealing with lessons that may be applied in other regions around the world. Research addressing any of the business functions is encouraged as well as those from the non-profit and governmental sectors.

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.

Objectives

- Generate an exchange of ideas between scholars, practitioners and industry specialists
- Enhance the development of the management and leadership disciplines
- 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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Articles should be submitted following the American Psychological Association format. Articles should not be more than 30 double-spaced, typed pages in length including all figures, graphs, references, and appendices. Submit two hard copies of manuscript along with a disk typed in MS-Word (preferably).

Make main sections and subsections easily identifiable by inserting appropriate headings and sub-headings. Type all first-level headings flush with the left margin, bold and capitalized. Second-level headings are also typed flush with the left margin but should only be bold. Third-level headings, if any, should also be flush with the left margin and italicized.

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.

References must be written in APA style. It is the responsibility of the author(s) to ensure that the paper is thoroughly and accurately reviewed for spelling, grammar and referencing.

Review Procedure

Authors will receive an acknowledgement by e-mail including a reference number shortly after receipt of the manuscript. All manuscripts within the general domain of the journal will be sent for at least two reviews, using a double blind format, from members of our Editorial Board or their designated reviewers. In the majority of cases, authors will be notified within 60 days of the result of the review. If reviewers recommend changes, authors will receive a copy of the reviews and a timetable for submitting revisions. Papers and disks will not be returned to authors.

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North American Business Press
301 Clematis Street #3000
West Palm Beach, Florida 33401
jlae@na-businesspress.com
866-624-2458
Situational Context: A Core Leadership Dimension

Charles D. Kerns
Pepperdine University
Corperformance, Inc.

It is important for leaders to know what is going on around them. Understanding and managing situations is a core dimension of leadership and a key area of accountability for leaders. After reviewing some relevant literature, a practice oriented framework is offered which focuses on four spheres of influence and is operationalized through a management cycle. A review of the application value, implications and challenges of this approach is provided. With increasing accountability for organizational outcomes, such as stakeholder well-being and ethical conduct, this approach gives practitioners a way to understand and manage the dynamics associated with situational context.

INTRODUCTION

Leaders at all levels in an organization are confronted with situations requiring understanding and management. The context surrounding these situations represent elements which, when effectively recognized and assessed, can help strengthen decision making. Leaders who have the ability to effectively understand “what is going on” in a given situation increase their chances of making better informed decisions and likely improve their overall effectiveness. This ability also helps leaders see and comprehend factors that impact stakeholder well-being which is an increasingly important area of accountability for organizational leaders (Wood & Winston (2005); Robertson & Flint-Taylor, 2009; Harquail & Brickson, 2012).

Unfortunately, there is a dearth of practice oriented frameworks and tools to help leaders better understand and manage the dynamics associated with situational context. Klimoski (2013) points out that the manner in which features of situational context have been conceptualized is frequently based on author preferences, leaving the field of leadership without a coherent framework. Situational context has also received little empirical research as it relates to managerial leadership (Dierdorff, Rubin & Morgeson, 2009; Schruiter & Vansino, 2002) and organizational behavior (Johns, 2006). Endsley (2004) does, however, offer a theoretical model of situation awareness that can be extrapolated to the practice of managerial leadership.

In endeavoring to better understand and manage situational context, a three stage model of situational awareness can be useful (Endsley, 2004; 1995). The first stage in realizing situational awareness is perceiving the key factors that are potentially operating in the environment. The next stage relates to synthesizing and comprehending the factors perceived as relevant in stage one. The third stage involves projecting the future impacts the factors may have in the environment. Taken together, situational awareness is enhanced by recognizing factors in the environment and understanding what they mean and how this perceived context will impact future conditions in the operating environment (Endsley, 1997,
Dervitsiotis (2007) provides a model that includes sensing, interpreting and deciding when one is confronted by changing situational circumstances. In addition, we can be mindful that sensemaking typically involves scanning, interpreting and responding and that differences in cognitive content and structure influence these three sensemaking elements (Hahn, Preuss, Pinkse & Figge, 2014; Daft & Weick, 1984).

This article offers a practice oriented framework for understanding and managing situational context. The framework is supported by a management cycle which help leaders apply the model. The framework’s and cycle’s application value, implications and some challenges in managing situation context are presented. The framework is embedded within a comprehensive system of managerial leadership which has been studied and practiced by the author and colleagues over three decades with the intent of helping clients achieve desired results. The current article will focus on the dimension of situational context within this broader system.

SITUATIONAL CONTEXT AND LEADERSHIP

Situational context and leadership have been conceptualized and studied over many years with some attention being given to the interplay between these two topics (Osborn, Uhl-Bien & Milosevic, 2014; Liden & Antonakis, 2009; Pettigrew, 1987). The study of the interaction of situations, people and behavior has been part of this journey. In terms of organizational leadership, the leader’s behavior can both influence and be influenced by the situation. From a practitioner’s perspective, it would be useful to have a practical framework from which to view situations to help managerial leaders proactively act and/or react to situational contexts.

When seeking to offer practitioners practice oriented frameworks and tools to enhance their effectiveness, both experience learned in field studies and from other forms of research can be of assistance. The work to bridge theory and research with practice is critical to help reduce the base rate of managerial leadership incompetence and/or ineffectiveness. Alarmingly, studies indicate that ineffective managerial leadership exceeds 50% across organizational settings yet annual spending on formal training and development for leaders is about fourteen billion dollars (Hogan, Hogan, & Kaiser, 2011; Gentry & Chappelow, 2009; Kaiser & Curphy, 2013). It is the author’s position that managerial leader effectiveness can be enhanced by offering practitioners practice oriented frameworks and tools that are based on evidence gleaned from practice and/or research. The current article offers a framework and management cycle to help managerial leaders better understand and manage situational context. The accountable leader can better serve and likely more effectively manage problems, challenges, and opportunities when they know what is going on both inside and outside of their organization.

A number of streams of research have contributed to our knowledge and understanding of the dynamic interplay between situational context and leadership behavior. For example, studies by Vroom and Jago (2007) concerning the role of situations in leadership conclude that three roles are played by situational context in leadership. First, they found that organizational effectiveness is impacted by situational variables not under the influence of a leader. Factors such as government legislation, technological innovations and the economy can influence organizational outcomes. Second, situations can influence how managerial leaders act. Leadership behavior is impacted by situational context outside themselves and by their own pool of personal resources such as personality and behavioral preferences that they bring to situations. Third, the outcomes of leader decisions and subsequent actions are affected by situational context. It would be prudent for leaders to proactively look at key situational elements confronting them before taking action. Interestingly, as Vroom and Jago (2007) point out, many popular resources on managerial leadership contain prescriptions for action without giving any consideration to situational context.

The field of leadership has likely associated extensively with the study of individual differences perhaps at the expense of more closely examining how situational context can influence leader behavior. The search for a general trait of leadership that is robust across all situations has been countered by the work of recent investigations (Judge, Simon, Hurst, & Kelley, 2014; Fleeson, 2011; Larsson & Vinberg,
It seems that the interplay between leaders and situations is more variable than static. In fact, investigations have shown that situational conditions can account for considerable response variability beyond the influence of individual differences which adds support to the role situational context plays in impacting leader actions (Vroom, 2000; Vroom & Jago, 1988; Vroom & Jago, 2007).

Lewin’s (1951; Lewin & Gold, 1999) observation, that the behavior of an individual is a function of the person and the situation, connects to the topic of situational context and leadership. He made a distinction between concrete external elements and the perceptions that a person has of concrete external factors. It seems that we need to account for both the actual as well as the perceived nature of context in one’s environment (Magnusson, 1981). In terms of understanding managerial leadership behavior in a specific situational context, we need to understand both the various external influences facing the leader as well as the leader’s perceptions of these elements (Funder, 2006; Sherman, Nave, & Funder, 2012).

While it is beyond the scope of this article to provide a comprehensive review of the literature on situational context and leadership, several additional works are noteworthy. For example, expanding our recognition of the forces that influence the behavior of leaders in situations beyond the internal organizational environment has been suggested by Osborn, Hunter, and Jauch (2002). These authors put forth a contextual theory of leadership that highlights the dynamic business forces that can powerfully impact organizations. These macro type forces produce a context of complexity and uncertainty which challenge a leader’s sensemaking skills. These forces can influence what leaders pay attention to, who they network with and how they collect information on specific issues. Situational context from this perspective is seen in a broader business environment which extends beyond an organization’s internal operating environment.

In contrast, like most researchers studying situational context and leadership, Porter and McLaughlin (2006) looked at the conceptual and empirical work done regarding situational context within an organization. They found that over a 15-year period factors such as structure, culture, people and business processes were the focus of study. Johns (2006) also provided a framework for thinking about an organization’s internal environment. He conceptualized the environment into task, social and physical factors, and studied the topic of situational strength and leader discretion.

In practice, a managerial leader’s effectiveness can be enhanced by looking at a variety of contextual influences that are internal as well as external to an organization’s operating environment. These situations vary depending on the amount of discretion a leader has to effect change (John, 2006; Meyer, Dalal, & Hermida, 2010). The interplay between managerial leader roles and situational context has been shown to be significant (Dierdorff, Rubin, & Morgeson, 2009).

Based in a review of the literature and decades of study and practice, the author strongly supports the notion that effective leadership and situational context are closely connected. It is unfortunate that there is a paucity of literature on the topic of leadership and situational context and even less on practice oriented frameworks and tools to help organizational leaders serve key stakeholders. The current article is intended to offer a framework and management cycle for managerial leaders to use to better understand and manage situational context.

PRACTICE ORIENTED FRAMEWORK

A practice oriented framework that addresses situational context may likely enhance organizational leaders’ effectiveness. In developing frameworks and tools to enhance leadership excellence and organizational effectiveness, such as the one offered in this article, the author and his colleagues utilize the following set of criteria (Kerns, 2014). The framework and tools need to:

- Add value to an organization
- Have face validity for practitioners
- Be relevant to practitioners’ daily work
- Be evidence based in practice and/or research
• Be practical to implement in an organizational operating environment
• Be coachable/teachable

With the above criteria as guideposts, the author has developed, a situational context framework which focuses on four major spheres of influence affecting leaders, as shown in Figure 1. This spheres of influence framework has been applied in many settings including work organizations, executive education classrooms, and applied research projects. The model is practitioner friendly and draws from and is conceptually tied to the relevant literature (including the work previously noted) relating to the study of situational context and leadership.

The framework depicted in Figure 1 includes four spheres of influence: core organizational identity, internal environment, transactional environment and extended external environment. Each of the four spheres of influence are briefly reviewed below.

**FIGURE 1**

**PRACTICE-ORIENTED SITUATIONAL CONTEXT FRAMEWORK**
Core Organizational Identity

An organization’s core identity offers an understanding of the attributes that define the organization and set it apart from other entities, serving to answer the question, “who are we as an organization” (Harquail & Brickson, 2012). It is important that the nature of an organization’s core identity such as its purpose, values, and guiding principles be aligned with the individual leader’s core identity and the other three spheres of influence (Dervitisiotis, 2012). This sphere of influence provides a filter through which leadership and stakeholders may view the internal operating environment, look at transactions with others outside of the organization and perceive the influence from more distant (extended external environment) elements. An organization’s core identity has the most impact on the other spheres of influence when it is clear and embraced by key stakeholders especially in the internal environment sphere of influence.

Internal Environment

The internal environment relates to the organization’s strategic direction, operational focus and linkages with resources. The organizational culture, people and structure, as well as systems and processes are also contained within this sphere of influence. Managerial leaders need to discern what is going on regarding these elements within the internal organizational environment and how they may be individually and/or collectively influencing a specific situation.

Transactional Environment

Transactional environmental influences derive from interactions occurring on a periodic basis. Organizational stakeholders who do business with an organization and/or are regularly impacted by the enterprise are found in this sphere of influence, as are customers, suppliers and competitors. Two often overlooked elements within this sphere of influence are local and/or regional communities in which the enterprise is located and significant others such as family, extended family and others connected to an organization’s workforce.

Extended External Environment

The extended external environment sphere contains important influences which are beyond the control of managerial leaders. These influences include such areas as government legislation, demographic changes and the economy. Other macro level factors may include technology, societal life style preferences and environmental considerations. This sphere of influence has more impact on leaders in some industry sectors than in others.

These four spheres of influence likely impact managerial leaders differently depending upon a leader’s hierarchical level within an organization. Peus, Braun and Frey (2013) as well as De Church, Hiller, Murase, Doty and Salas (2010) emphasize the importance of a leader’s impact across organizational levels. In terms of situational context, Osborn and Marion (2009), for example, show how the number and nature of alliances vary as a function of the leader and strategic context. While the four spheres of influence offered in the current framework seem to indeed interact differently with leadership levels, they have been shown to be relevant and important to managerial leaders across levels.

Situational context can be challenging for leaders to understand and manage. In an effort to determine factors within various spheres of situational influence and the impact the management of these elements may have in particular situations, the author and his colleagues have been asking five key questions to practicing leaders:

- Frequency of use – How frequently do you look at situations facing you as a leader within these four spheres of influence?
- Effectiveness – How is your effectiveness as a leader impacted by how frequently you understand and manage contextual factors within the four spheres of influence?
- Importance – How important are contextual influences within the four spheres of influence to your success as a leader?
• Relevance – Are influences within these spheres of influence relevant to success in your leadership role?
• Challenge – How challenging is it for you to manage influence within each of the four spheres of influence?

Significant opportunities exist for practitioners, researchers and teachers to draw upon known and evolving knowledge about managerial leaders’ understanding and management of situational context. The framework offered here extends this knowledge by building upon observations and experience gathered by the author in working with a broad range of managerial leaders across industries. Based on fieldwork, applied research and consulting that addresses the areas of questioning noted earlier combined with reviews of relevant literature, the author has made the following observations about situational context: 4
1. Managerial leaders appear to find situational context to be a relevant and important topic.
2. It is unclear whether any one of the four spheres of influence is more challenging to manage than the others.
3. It seems likely that managerial leaders, especially C-level executives, are impacted by all four spheres of influence.
4. The attention paid to each of the four spheres of influence seems to vary within and between managerial leaders. (This observation is aligned with the previously noted research literature relating to leadership and individual differences (Judge, Simon, Hurst, & Kelley, 2014; Fleeson, 2011; Fleeson & Gallagher, 2009)).
5. The challenge for managerial leaders in terms of managing situational context is in focusing on the most important and actionable spheres of influence.
6. Managerial leaders who focus predominately on external environments may likely neglect internal operational issues impacting their organizations. Conversely, paying too much attention to internal environmental factors may undermine setting a clear and motivating strategic direction (Kerns & Ko, 2014).
7. A leader’s behavior appears to interact with the strength of situations the leader encounters (Myer & Dalal, 2009). Situations allowing for significant discretion seem to be more conducive to expressing a leader’s authentic/true self. (This observation is aligned with the recent research on situational context offered by Kanfer (2012), Dalal & Hulin (2008) and Johns (2006) relating to motivation. Sources of an individual leader’s motivation seem to interact with situational context in dynamic ways Kerns, (2014).)

Based on the above observations and studying the topic of situational context and leadership, a set of practices has emerged that can help a managerial leader better understand and manage situational context. These practices include recognizing, and assessing contextual factors and formulating behavioral options to address situational problems, challenges and opportunities and together they form the basis of a situational context management cycle offered in Figure 2.

Practitioners are in need of frameworks and tools that conform to a set of useful criteria (such as those previously noted) to help them improve their effectiveness. To this end, the author uses the framework depicted in Figure 2 in his consulting, teaching and applied research relating to a managerial leader’s understanding and management of situational context. The four spheres depicted in Figure 1 provide a set of factors to guide a leader’s attention in identifying problems, challenges and opportunities. The individual leader, in turn, based on his/her recognition of the situational cues, assesses people and situations within and across these spheres. These assessments and perceptions influence behavioral options and the actions that are taken, ranging from personal change initiatives to organizational change efforts. Ultimately a leader’s unique perceptions and assessments of these spheres of influence and factors within, along with input from others, lead to the formulation of behavioral options and contribute to outcomes. Outcomes can be measured in terms of organizational, individual and career effectiveness. (In
the author’s work, these three outcomes have not necessarily correlated. For example, a highly ambitious achievement oriented leader may rapidly advance his/her career by linking with spheres of influence outside the leader’s current organization while internal organizational and individual effectiveness may suffer (Kerns, 2014).

**FIGURE 2**

**SITUATIONAL CONTEXT MANAGEMENT CYCLE**

<table>
<thead>
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<th>Identifying</th>
<th>Recognizing</th>
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<th>Formulating</th>
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<td>Spheres of influence at play:</td>
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<td>- Extended External</td>
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<td>Impacts and Dynamic Interplay of Spheres of Influence and Specific Influences</td>
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<td>Action Plans and Behavioral Options</td>
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<td>Potential Outcomes:</td>
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A key potential opportunity for leader growth and development is depicted by the dotted line in Figure 2 running from outcomes to formulating action plans, to identifying problems, challenges and opportunities, etc. With the help of an executive coach or mentor, or through personal reflection, a leader may enhance his/her skills in understanding and managing within and across spheres of influence. The author has seen this feedback loop help change leaders’ focus and skill level in executing the practices associated with the situational context management cycle. There may also be an interaction between organizational level and what the individual leader attends to, especially as it relates to internal and external spheres of influence.

Conceptually sound yet practical frameworks and tools can help practitioners better understand and optimally manage situational context. Asking the right questions with the guidance from a practice oriented framework and management approach can help leadership practitioners gain greater awareness and perspective with respect to situations they face. In turn, researchers as well as teachers of leadership can benefit from the development and sharing of practice oriented frameworks and tools like the ones offered here. Helping managerial leaders become more effective in practicing in this key practice area of leadership is a core dimension of an integrated framework driving managerial leadership effectiveness.

**APPLICATION VALUE AND IMPLICATIONS**

Work relating to situational context has application value and implications for practitioners, researchers and teachers. All three groups are contributors to helping emerging leaders and/or practicing leaders grow and develop. Practitioners especially can benefit from having practical frameworks and tools to help them better understand and manage situational context. A discussion of the application value and implications of the current work across practice, research, and teaching domains follows.
Practice Domain

Using the situational context framework and management cycle described above as a reference point may help further facilitate discussion on ways to help managerial leaders better understand and manage problems, challenges and opportunities. This framework and management cycle has served as a practical springboard for productive conversations relating to recognizing, assessing and formulating behavioral options in dealing with the four spheres of influence both individually and collectively. From these conversations, interesting patterns have emerged about individual leader’s preferences relating to the amount of time and time perspective they apply to each of the four spheres of influence (Kerns, 2012).

An especially helpful way to apply the framework has been to present the four sources of influence to executives when they are looking for cues to help solve a pressing problem. In this approach a leader is asked to distribute a 100 points across the four spheres of influence in proportion to relative weight or relevance to a particular situation as a way to express proportionally. This application typically helps the leader recognize which sphere and associated elements are most connected to addressing the problem. It has also proven helpful in identifying spheres of influence where an executive may lack understanding and experience in recognizing relevant and important situational cues. This framework and management cycle may be utilized to facilitate self-reflection on and assessment of a leader’s effectiveness at recognizing, assessing and formulating behavioral options to deal with situations confronting them. Self-reflection and assessment can be advanced by using the five questions offered above.

The five questions listed above have also been used with organizational teams to help them better understand and manage situational contexts surrounding problems, challenges and opportunities. This process seems to help teams become more confident and competent at recognizing, assessing, and formulating action plans to address significant issues. During this process teams have been observed to increase their alignment and engagement with their organization’s core identity. On numerous occasions the process of reviewing the five questions in relationship to an organization’s core identity sphere of influence appears to have increased organizational commitment among individuals and within groups.

The framework offered here has also proven to be useful in helping to select individuals for various leadership positions. Specifically, in the context of a selection interviewing process, candidates have been asked a variety of situational judgment questions. After being presented with a problem, the candidate is given a graphic displaying the four spheres of influence and asked to consider which spheres may be most relevant and important. Candidates are assessed on their abilities to recognize cues, assess relationship among the spheres, formulate behavioral options and project potential outcomes. This application of the framework and the management cycle has proven to be very revealing of a candidate’s skill at understanding what is going on in situations that they will likely face if ultimately hired.

The above situational judgment application has also been useful in the context of leader development. In these circumstances a leader is asked to practice applying the situational context framework and management cycle to impending challenges and opportunities. This activity has proven to be a valuable source of feedback to a leader especially when connections are made between the situational judgments and an individual leader’s effectiveness.

Research Domain

While this article is focused on practicing managerial leaders with the hope of helping them better understand and manage situational context, several areas seem to be ripe for additional research. It would be of interest to further investigate the relationship between the four spheres of influence and a leader’s efficacy in applying the framework and management cycle. Also, more rigorously evaluating the five questions presented earlier would help shed light on the frequency, effectiveness, importance, relevance, and challenge level that each of the four spheres of influence pose for managerial leaders. The author and his colleagues are currently collecting data from C-level executives to shed light on this area. In addition, a more detailed analysis and indexing of the specific managerial leadership behaviors associated with each of the components in the situational context framework and management cycle would be instructive. It is likely that each of the behavioral components in the framework and cycle present different challenges for leaders depending upon their personal resource profile.
Investigating the multi-level alignment and engagement of leaders’ understanding and management of situational context across an organization’s structure would be useful (Drath, McCauley, Palus, Vestor, O’Connor, & McGuire, 2008). A better understanding of the dynamics within and among organizational levels as they relate to managing key situations would be helpful. This work would help support research efforts to further examine topics such as situational context and leadership across multiple organizational levels (De Chruch, Hiller, Murase, Doty & Salas, 2010; Mathieu & Chen, 2011).

Empirical evaluation of the impacts of situational context on managerial leader effectiveness, career success and organizational effectiveness would also be important. The practice oriented framework and management cycle offered here could be strengthened by empirical examination and exploration to identify additional elements associated with each of the components in this situational context model. Consideration should also be given to reviewing additional spheres of influence beyond those offered in the current framework.

The work to develop interactionist approaches to measuring situation context like situational judgment tests needs to continue (Campion & Ployhart, 2013; Motowidlo & Beir, 2010; Lievens, Peeters, & Schollaert, 2008). This research area offers an opportunity for practitioners and applied researchers to come together to design, develop and test real-world oriented assessments to measure aspiring and/or seasoned leaders’ situational judgment. It also holds promise for the development of assessments that can be used in educational settings as part of experiential exercises facilitated by teachers and other developers of leaders.

Finally, the emerging research on authenticity at work connects well with the framework offered here. It would be useful, for example, to know how a leader’s authenticity fluctuates in relationship to situational contexts. More specifically research that investigates the congruence between a leader’s core identity (true self) and an organization’s core identity, and how this relationship impacts a leader’s well-being and performance, would be valuable. (Van Den Bosch & Taris, 2013; Toor & Ofori, 2009; Van Den Bosch & Taris, 2014).

**Teaching Domain**

The teaching of leadership could benefit from having practical frameworks and tools to offer emerging leaders as well as experienced leaders looking to enhance their effectiveness. The author has imported some of the applications used in organizational settings into the MBA classroom when teaching frameworks and tools associated with better understanding and managing situational context.

Experiential exercises, in particular, have been used by the author to help business students better understand and apply the situational context framework offered in this article. This process often includes presenting learners with real-world problems and having them work to make sense of the situation using the four spheres of influence and the management cycle as resources. They are asked to do this work in small groups to identify the spheres of influence at play, to assess dynamic interactions among the spheres, and to formulate behavioral action plans. Each group also typically projects the outcomes of their anticipated actions. These sessions conclude by having students identify and discuss the value to a managerial leader in knowing “what is going on” around them.

Another very powerful exercise for getting students to better understand and apply situational context to leadership is to have them develop a brief situational judgment test. In small groups, students are asked to identify three challenging problem situations that they have faced. The small group picks its top three situations and formulates a “what would you do” question for each situation. In turn, each small group gets to ask a member of another group these questions while the remaining students observe the interaction. Then the entire class is facilitated by the teacher in a discussion of how the student performed in responding to the situations presented. This exercise reinforces the importance of being able to manage situations and provides students with realistic exercises in striving to assess this skill in others. Situations that students are asked to generate in their small groups are usually posed as problems, challenges or opportunities.

One of the most impactful ways to bring the framework and management cycle alive for students is to have successful executives present the model to learners and show how they use it to better understand
and manage situational context. Students have responded favorably to these experiences especially when experienced executives disclose how they have improved their ability to better understand what is going on by systematically applying the framework and cycle to real-world situations. Having executives share their experiences in applying the practice oriented situational context framework and management cycle underscores the power of positive performance role modeling as a leadership teaching tool (Bandura, 1986).

SOME CHALLENGES

Operationalizing situational context in a way that helps managerial leaders better understand and manage problems, dilemmas and opportunities presents a variety of challenges. Practical and appropriate assessment tools are needed for managerial leaders to determine their effectiveness at recognizing key situational cues and integrating this information into coherent action plans. The work being done in developing Situational Judgment Tests will likely help provide relevant and useful instruments to help assess situational contexts (Bledow & Frese, 2009). This work and other developments can contribute to practitioners, teachers and applied researchers being more effective in their efforts to assess situational contexts. This work may help to positively impact a number of talent management topics such as selection, training and development of managerial leaders.

It will be challenging for managerial leaders to create and sustain alignment as well as engagement while managing strategic situations across organizational levels. This will require achieving agreement among key stakeholders in identifying problems and mutually deciding on which spheres of influence to target for assessment and action planning in specific situations. Managerial leaders will need to demonstrate competence in interpersonal influence skills to successfully enhance alignment and engagement in their organizations (Kerns, 2014). This challenge extends especially to global organizational leaders who must align and engage their organizations across diverse cultural boundaries (House, Hanges, Javidan, Dorfman, & Gupta, 2004).

Another challenge is to more fully understand the characteristics of individuals who effectively recognize, assess and formulate behavioral options when dealing with different situational contexts. The work being done to identify and assess individual differences among managerial leaders needs to be extended to include variables that may help predict who is best at understanding and managing situational dynamics (White & Shullman, 2010). This information would likely benefit those making selection decisions and aid others who are charged with investing in managerial leadership development programs. Meeting this challenge would also directly benefit practitioners by helping them, for example, target developmental need and performance improvement areas contained in the situational context framework and management cycle.

Finding ways to translate the theoretical formulations and academic oriented conversations around the concept of situational context for practitioners is also a challenge. In addition to offering managerial leaders frameworks and tools that are based on evidence gleaned from professional experience, field study, and applied research, we need to ensure that practitioner friendly language is used when describing approaches related to helping leaders better understand and manage situational context. The integration of spheres of influence into a practice oriented situational context framework and management cycle as offered here should help address this challenge.

Helping managerial leaders apply a balanced time perspective when assessing each of the four spheres of influence is another challenge. Kerns (2012) offers a time perspective framework that may be useful and helpful to managerial leaders as they strive to better understand and manage situational contexts. Looking at the four spheres of influence with a balanced time perspective of the past, present and future would seem to be important and impactful in reaching a more complete understanding of a specific situational context. Exploratory work in this area seems promising and the author is hopeful that these efforts will continue to offer useful information for managerial leaders and their advisors to use in helping leaders to effectively assess and manage situational context.
Attending to the challenges of assessment, alignment-engagement, individual differences, and managing time perspectives will enhance our understanding and management of situational context as a core leadership dimension. As more attention is focused on the practice oriented aspects of situational context, additional challenges for practitioners, applied researchers and teachers will be offered. This core dimension of leadership is an important and stimulating area of study which may likely contribute to enhancing leadership and organizational effectiveness across a variety of settings.

SUMMARY STATEMENT

The development and application of frameworks and tools to help managerial leaders more effectively understand and manage situational contexts will be beneficial to advancing the practice and study of leadership. With a systematic approach that builds upon practice oriented frameworks and tools, additional resources can be developed and applied to help leaders better understand and manage challenging situations at work. As this work moves forward there will be a need for assessment tools, additional practice oriented frameworks and the identification of best practices to help managerial leaders do their best when striving to answer the question concerning “what is going on” around them. These and related efforts will likely advance our knowledge and understanding of the dynamics associated with situational context in real work settings. As we progress, key areas of leader accountability like organizational well-being and ethics may be enhanced.

ENDNOTES

1. A debate comparing and contrasting management and leadership has occurred over more than thirty years. In this article the terms managerial leadership, management and leadership are used synonymously.
2. While it is beyond the scope of the current article, there is interesting work being done in the emerging field of Positive Organizational Scholarship on the role organizational identity may play in enhancing stakeholder well-being in organizational settings (Harquail & Brickson, 2012). Also, the concept of authenticity applied to leadership is of growing interest to researchers and practitioners. The degree of alignment between a leader’s “true self”, or core identity, and an organization’s core identity likely impacts a leader’s level of authenticity at work (Van Den Bosch & Taris, 2013; Toor & Ofori, 2009; Van Den Bosch & Taris, 2014).
3. This system of managerial leadership strives to provide practitioners, applied researchers and teachers with an integrated approach to viewing and understanding leadership. The system brings together several streams of leadership study and research that have been offered over the past 100 years. A core dimension in this model relates to a leader’s understanding and management of situational context. As part of this dimension a better understanding and management of situational context can help advance the practice, study and teaching of leadership which is the focus on the current article. It is beyond the scope of the current presentation to review and discuss the other system dimensions.
4. This methodology is in keeping with Locke and Cooper’s (2000) assertion that qualitative data obtained from a variety of available sources, including interviews with structured questioning, field observations, and other less quantitative methods of inquiry can legitimize an approach that is based on the integration of real-world facts.

REFERENCES


Code of Ethics Amendments Required by Section 406 of the Sarbanes-Oxley Act

Maria Pirrone
St. John's University

Joseph E. Trainor
St. John's University

We examine and provide evidence on the frequency, characteristics, and nature of code of ethics amendments filed by public companies. In addition, we propose a classification system that researchers can use to explore issues surrounding code of ethics amendments, waivers, and adoptions. Our study contributes to the growing stream of literature examining changes in business ethics in a global environment and the impact of regulation on firms’ business practices. Finally, we provide background information on the provisions Section 406 of the Sarbanes-Oxley Act (SOX), an important, but less frequently discussed requirement of SOX.

INTRODUCTION

Most capital market participants were shocked when fraud played a leading role in the collapse of mega-corporations such as Enron, Adelphia and WorldCom at the beginning of the twenty-first century. These scandals cost investors billions of dollars, shook confidence in the public securities markets, and undermined the integrity of financial reporting. Responses to the financial crisis were diverse, but a common theme was the desire for increased transparency.

In order to restore investors’ confidence in the financial reporting for public companies, Congress was quick to respond with the passage of the Sarbanes-Oxley Act of 2002 (SOX). This historic legislation redefined the roles and responsibilities of management, audit committees, and auditors. SOX sets forth a number of initiatives to deter or prevent corporate fraud. Our paper examines Section 406 of SOX, one of the lesser discussed provisions. Section 406 establishes certain requirements and responsibilities regarding firms’ corporate code of ethics. Our paper is motivated by the lack of empirical research on the requirements of Section 406 and seeks to provide preliminary and qualitative evidence about recent code of ethics amendments.

BACKGROUND ON SECTION 406

Outrage over the high-profile ethical and financial misconduct by certain executives at public companies led Congress to pass the Sarbanes-Oxley Act of 2002. The most sweeping securities legislation since the 1930s, SOX goal is to improve investors’ confidence in the financial reporting of public companies. Among the various requirements under SOX, our paper examines Section 406. Section
Section 406 of the Act, titled “Code of Ethics for Senior Financial Officers”, requires the Commission (the “SEC”) to promulgate rules regarding the disclosure of the existence of firms’ code of ethics, waiver, and amendments to firms’ corporate code of ethics. On January 15, 2003, the SEC issued those regulations requiring each public company to disclose whether it has a code of ethics, and if a company has not adopted a code of ethics, to explain why it has chosen not to do so. Firms are required to make these disclosures on Form 10-K or on the company’s website. The company must comply with the disclosure requirements in its annual report for its fiscal year ending on or after July 15, 2003.

Additionally, the Commission adopted rules requiring a company to make “immediate disclosure” on Form 8-K if any change to the company’s code of ethics applies to its principal executive officer, principal financial officer, principal accounting officer or comptroller or persons performing similar functions and the nature of any waiver, including an implicit waiver, from a provision of the code of ethics. A “waiver” is defined by the SEC as the approval by the company of a material departure from a provision of the code of ethics. Disclosure on Form 8-K must be made within five days after the company amends its ethics code or grants a waiver. Alternatively, a company may use its website to release the information provided that the method of disclosure is fully explained on its most recently filed annual report. The purpose of the disclosure requirement was to ensure that changes in the policies are not made for improper purposes and that the code is made available to the public.

CORPORATE CODE OF ETHICS

A code of ethics outlines a set of basic principles and can be defined as specialized codes of behavior and standards for professional conduct for managers and employees. Codes of Ethics can be used both as the basis for operational requirements (things that must be done) and prohibitions (things that are prohibited behavior). Typically a code of ethics is founded on a set of core principles or values. The principles are illustrated with behavioral examples.

While most large companies have codes of ethics (Donaldson and Werhane, 1993; Murphy, 2005), Section 406 of SOX pertains only to employees of public companies who have financial disclosure-related responsibilities. Section 406 defines a code of ethics as,

“written standards that are reasonably designed to deter wrongdoing and to promote: Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships; Full, fair, accurate, timely, and understandable disclosure in reports and documents that a company files with, or submits to, the Commission and in other public communications made by the [company];Compliance with applicable governmental laws, rules and regulations; The prompt internal reporting of violations of the code to an appropriate person or persons identified in the code; and, Accountability for adherence to the code.”

Although SOX set forth requirements for the disclosure of the existence a corporate code of ethics, many corporations have voluntarily developed and implemented a code of ethics over the past twenty years to monitor professional conduct for managers and employees. Companies adopt codes for many different reasons, i.e., to encourage good behavior by employees, to prevent behavior that might lead to legal liability and to foster goodwill for the company with clients; investors; the business and the regulatory community; and the public. Sauser (2013) suggests that building corporate cultures focused on
virtues that leaders must take proactive steps, the first of which he advises is to adopt a code of ethics that all employees in the organization can understand.

CLASSIFICATION OF AMENDMENTS

Although many formal codes exist, previous research suggests that ethics programs can vary in orientation. Citing several case histories, Paine (1994) found that ethics programs can emphasize values and counseling or can emphasize legal compliance, control, and discipline. She argues that programs emphasizing values are likely to have more desirable and long-lasting impacts than programs founded on rule compliance. Adoption of a values orientation is rooted in the ethical aspirations of employees and the development of shared values was found to be influenced only by top management’s commitment to ethics. Adoption of a compliance orientation which emphasizes rules and discipline measures for misconduct was found to be influenced by executives’ awareness of the United States sentencing guidelines as well as a commitment to ethics.

Weaver and Trevino (1999) also examine compliance and values oriented ethics programs and how these program orientations influence employees’ attitudes and behaviors. The study finds that a values orientation makes a greater unique contribution to measured outcomes compared to a compliance orientation. The authors conclude that although both orientations are important, that values orientations is important factor related to outcomes in their single company case study setting. Erwin (2011) examines outcomes based on the quality of corporate code of ethics and finds that firms with higher quality code of ethics score higher on ethical rankings and have higher corporate social responsibility measures. Finally, Deloitte & Touche (2005) suggests that companies that follow both the letter and the spirit of the law by taking a “value-based” approach to developing their corporate code of ethics may have a distinct advantage in the marketplace. They suggest that companies should strive to make codes applicable to everyone in the company and worded in such a way that is clear and concise, but less legalistic in nature. Steven (2008) finds similar evidence suggesting that firm culture and effective communication are key components to a code’s success. She finds that codes do not work when passed down from management as a mandate, rather that employees must perceive the ethical code as a personal document in which they have ownership.

Trevino, Weaver, Gibson, and Toffler (2014) find two additional orientations: programs that are oriented toward satisfying the expectations of external stakeholders, and programs oriented toward protecting top management from blame in the event of any legal or ethical improprieties. Derr (2012) finds that several ethical theories and principles exist and concludes that although these theories provide tools and guidance for business leaders, that not every theory is good for every situation.

Despite varying theory of firms’ ethical theories and orientation, the extant literature has generally focused on compliance and values orientations for corporate code of ethics. Ethics codes can be characterized as values oriented or compliance oriented and need not be mutually exclusive. A strong values-based program can co-exist with some rules. Our study suggests that code of ethic amendments can also be classified as being primarily value-oriented or compliance-oriented. The classification of amendments into these categories may be useful for researchers and capital market participants seeking to evaluate firms’ ethical behavior and the effects; if any, these amendments may have on firms’ operations.

METHODOLOGY

Since prior studies have not examined amendments to firms’ corporate codes of ethics, we study corporate code of ethic amendments made by publicly traded companies during the 2012 calendar year. We retrieve Form 8-K for those companies disclosing changes to the corporate code of ethics for 2012 and read each filing to determine the nature and scope of the change in the corporate code of ethic and classify these disclosures into three categories; new adoptions, amendments, and waivers. Amendments are then classified based on whether the change is compliance-oriented or values-oriented. Our final sample consists of 49 firms filing amendments to their corporate code of ethics.
RESULTS

The sample selection procedure results in 77 firms being identified as having filed an amendment, waiver, or adoption of a corporate code of ethics in Form 8-K filed with the SEC. Since our study is focused on amendments, we eliminate firms reporting waivers and adoptions. Our final sample consists of 49 firms filing amendments to their corporate code of ethics. Table 1 details the sample selection process. As noted in Table 1, amendments comprise the most common reason for firms to disclose a change in their code of ethics (49 filings out of 77 total filings), accounting for approximately 64% of all ethics related disclosures filed with the SEC. The next most prevalent reason for disclosure of a change in a firm’s code of ethics was due to the adoption of a new or totally revised corporate code of ethics. Many reasons can result in a firm having to adopt a code of ethics such as being newly registered, as the results of a merger or acquisition, or other substantial change in the firm’s operating structure.

TABLE 1
SAMPLE SELECTION

<table>
<thead>
<tr>
<th>Number of Filings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firms filing code of ethics disclosures</td>
</tr>
<tr>
<td>Less: Adoptions</td>
</tr>
<tr>
<td>Waivers</td>
</tr>
<tr>
<td>No disclosure</td>
</tr>
<tr>
<td>Total amendments</td>
</tr>
</tbody>
</table>

Next, we categorize amendments as either a value-oriented amendment or as a compliance-oriented amendment. The results of this classification appear on Table 2.

TABLE 2
ETHICAL ORIENTATION OF AMENDMENTS

<table>
<thead>
<tr>
<th>Number of Filings</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value-oriented</td>
<td><strong>28</strong></td>
</tr>
<tr>
<td>Compliance-oriented</td>
<td><strong>21</strong></td>
</tr>
<tr>
<td>Total</td>
<td><strong>49</strong></td>
</tr>
</tbody>
</table>

The number of amendments containing value-oriented propositions clearly outweighs the number of compliance-oriented amendments with approximately 57% of all amendments containing language which suggests that firms are more focused on improving the ethical environment rather than pure compliance with laws and regulations. Despite the large number of value-oriented amendments, we do note that the number of compliance-oriented amendments is also significant.

To gain further insight into the classification of amendments into these two categories we break down the analysis even further in Table 3 to provide the most common classifications within values-oriented and compliance-oriented amendments. As noted in Table 3, the most common reason for values-oriented amendments is to emphasize values propositions and to align with ethical “best practices”. In addition, many amendments were aimed at clarifying the language for users and to make the code of ethics easier to understand. On the other hand, the most frequent reason for amending for firms with a compliance-
oriented framework was to comply with various laws and regulations specific to their business followed by compliance with the Foreign Corrupt Practices Act.

### TABLE 3
EXAMPLES OF VALUE-ORIENTED AND COMPLIANCE-ORIENTED AMENDMENTS

<table>
<thead>
<tr>
<th></th>
<th>Number of Filings</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Value-oriented amendments</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Emphasis of core values and/or best practices</td>
<td>6</td>
<td>12%</td>
</tr>
<tr>
<td>Improve wording and help employees understand Code</td>
<td>6</td>
<td>12%</td>
</tr>
<tr>
<td>Provide anti-retaliation and whistle-blower protection</td>
<td>5</td>
<td>10%</td>
</tr>
<tr>
<td>Update policies regarding gifts and conflicts of interest</td>
<td>4</td>
<td>8%</td>
</tr>
<tr>
<td>Statement on prohibiting forced labor or human trafficking</td>
<td>2</td>
<td>4%</td>
</tr>
<tr>
<td>Technical changes to the code</td>
<td>5</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Compliance-oriented amendments</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compliance with various laws and regulations</td>
<td>6</td>
<td>12%</td>
</tr>
<tr>
<td>Compliance with Foreign Corrupt Practices Act</td>
<td>5</td>
<td>10%</td>
</tr>
<tr>
<td>Compliance with internal company policies</td>
<td>4</td>
<td>8%</td>
</tr>
<tr>
<td>Compliance with SEC, SOX, or other regulatory matter</td>
<td>3</td>
<td>7%</td>
</tr>
<tr>
<td>Technical changes to the code</td>
<td>3</td>
<td>7%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>49</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

To gain further insight into the types of amendments, we present a sample of excerpts from various amendments from our sample. In the top panel, we include excerpts from amendments coded as compliance-oriented and in the bottom panel those classified as values-oriented amendments. Our analysis of the wording for compliance-oriented amendments shows a clear and consistent use of the word “comply” and/or “compliance”. As noted above, firms must comply with a variety of laws and regulations. The most common in our sample were the Foreign Corrupt Practices Act, SRO listing requirements, and the requirements under SOX.

Wording for values-oriented amendments tend to focus on supporting firms’ core values and/or implementing “best practices” in corporate governance, specifically best practices as to instituting a proper code of ethics. Many firms also elucidate the need to make their corporate code of ethics easier to understand for users and to provide more examples. Clearly, the legalistic boilerplate language adopted by many firms when the requirements first became effective under Section 406 left firms with codes of ethics that were difficult for employees to understand and implement.
**TABLE 4**
SAMPLE OF EXCERPTS FROM AMENDMENTS

*Compliance-oriented disclosures*

“The purpose of the changes was to ensure compliance with the rules of the New York Stock Exchange”

“The Code was amended to further address illegal payments to foreign government officials and the Company’s commitment to compliance with The Foreign Corrupt Practices Act of 1977, as amended.”

“… the amended Code addresses compliance with applicable laws, regulations, and guidelines…”

*Values-oriented disclosures*

“Transition from a ‘principles’ to ‘values’ orientation employing the formally-adopted ‘shared values’ - Integrity, Respect for People, Customer Passion, Energy and Excellence -- as the focus of the Company’s ethics and compliance effort…”

“The revised code emphasizes the Company’s core values and its commitment to fair and ethical behavior in the conduct of its business”

“The overall purpose of amending and restating the Code was to generally update the Code, to make changes in language, appearance and style to improve its clarity and readability and to enhance the understanding of Company personnel of the Company’s standards of ethical business practices.”

“The amendments were made to generally update the Code and make it more user friendly”

**CONCLUSION**

Our paper examines amendments to corporate codes of ethics and classifies them as value oriented or compliance oriented. We find a tendency for firms toward value-oriented amendments versus compliance-oriented amendments. We also find that amendments are the most frequent reason for firms to file Form 8-K and disclose a change in the firm’s code of ethics over waivers and adoptions. Our preliminary findings and the background information on Section 406 provide researchers and capital market participants the foundation for future research in this area. For example, future studies could examine the causes and consequences of code of ethics amendments.

**REFERENCES**


Good Weed, Inc.
Donald Grunewald
Iona College

A successful real estate investor wishes to change the mission of his pink sheet listed corporation in which he and his family own most of the stock by getting into the distribution of medical marijuana and related products although federal law currently prohibits such activities. The federal law is not being enforced in some states that now allow distribution of marijuana for medical uses or sometimes for recreational use. There has been a boom in penny stocks in marijuana distribution and this investor sees an opportunity to make a quick profit. The case looks at these issues and at ethical issues in the sale of penny stocks.

Michael Rizzoto, known to everyone as "Mikey" is considering starting a new venture to help distribute medical marijuana (cannabis sativa) and marijuana used for recreational purposes. He also would like to distribute in the US European industrial hemp which may contain some cannabidiol in some states where such usage is currently allowed by state laws even though federal laws in the USA prohibit such activities. The current federal drug laws are controversial and some people believe that states that now allow distribution of medical marijuana in some states and recreational use of marijuana in two states (Colorado and Washington State) are appropriate especially to help those who believe that medical use of marijuana and related products is humane to help cure or alleviate some illnesses such as some forms of cancer and epilepsy and or believe that smoking marijuana is no worse than smoking cigarettes which is legal but controlled.

Mikey smoked marijuana regularly while attending college. He also sold marijuana and other illegal substances (mostly pills) but not hard drugs like cocaine or crack to classmates and was able to pay his tuition and other college costs, pay for his illegal drugs and buy a nice car out of his proceeds. In his senior year of college, he was caught selling marijuana to students and was convicted and sent to a penitentiary for two years. While in prison he stopped smoking marijuana and he successfully completed his college education with correspondence courses and independent study from his college. He accomplished this in order to get paroled after eighteen months in prison. He says that he never has personally taken any illegal substances again after prison but he believes that the federal drug laws are wrong.

After prison, Mikey went to work selling and renting commercial real estate. He became very successful as a salesman and set up a public corporation that is listed on the pink sheets. The corporation is chartered in his home state to use for ownership of real estate which he purchased over more than ten years of work as a realtor. His corporation currently owns real estate investments that are valued at over $700,000.00.

Mikey recently read in Forbes Magazine an article, "High Times- Inside the Marijuana Stock Boom" (Nathan Vardi, FORBES, April 14, 2014, pp. 90-94) which describes the hype around legalized dealing in marijuana and how this has sent marijuana stocks on a rapid rise. The article has described how there are
now several persons with paper assets of many millions of dollars in marijuana related stocks that are regularly traded on the over-the-counter bulletin board, or pink sheets. Some of these stocks have no profits yet from their marijuana related business but their stocks have boomed.

Mikey is reasonably happy with his current life with a good income and satisfying work. He loves to sell things such as real estate to others. He is now in his early thirties. However, he would like to get really rich and thinks that the marijuana related business in approximately twenty states where it is allowed for medical purposes and two states where it is also allowed for recreational purposes is a good way to get rich fast right now when penny marijuana stocks are very hot. He has prepared a brief business plan to outline what he proposes to do in this field very quickly.

Mikey proposes to have his pink sheet listed over-the-counter corporation change its purpose from purchasing and operating commercial real estate projects to a company that works in the marijuana related fields where allowed by state laws or regulations in some states family me. He will change the name of his corporation to Good Weed, Inc. and sell off some of the real estate owned by the corporation to provide at least one half million dollars of capital to invest to start and grow his expected new business. He currently owns almost all the stock in the corporation in his name or in the name of family members and he will split the current stock owned by him and his family and a few small minority owners so that he and his family have twenty five million shares. He will keep control of the corporation. An additional twenty five million shares will be owned by the company as treasury stock and the remaining one million shares (after the stock split) will be owned by other shareholders. The shares held as treasury stock can be sold to others by the corporation to raise funds. Some of these other shares will be sold to the public when possible over the pink sheets and the funds raised will be used to help develop his new business. Some of these treasury shares will also be used as incentives for growers of marijuana and other substances so that they will distribute their product to his prospective clients such as clinics or sellers to consumers for their direct use. He will also distribute some shares to medical marijuana clinics or their principals and other sellers to the public as part of contracts with his company and these organizations to encourage these ultimate distributors to buy their products from the growers who will work with his corporation.

In addition to working with growers to help them bring their product to medical marijuana clinics and to recreational providers where allowed by state law, Mikey is also very interested in the potential of selling industrial hemp which is produced in several countries in Europe in the states which allow use of medical marijuana. To do this and reduce his corporate taxes on these imports he will set up another corporation in a tax friendly country in Europe such as Ireland or Luxembourg or Andorra, using some of his shares and his family's shares as the beginning equity in this new European corporation. Most of the profits for selling the industrial hemp in the USA can then be made in Europe and sheltered from US taxes by being kept and reinvested in Europe. Some European countries have much lower taxes on companies that export to the US than US corporate taxes and it makes sense to Mikey to keep much of the expected profit in Europe and not have to pay US taxes until some of the profits are remitted to the US if they ever are remitted. It is prudent, according to Mikey, for him and his family to diversify their assets keep their taxes lower by keeping some of the assets in Europe.

Industrial hemp produced in Europe can apparently be exported to the US even though such hemp contains some trace amounts of cannabidiol. Some medical sources contend that this substance has medical effects that can reduce epileptic fits. When it gets to the US this hemp with trace amounts of cannabidiol which is not considered by the US government at this time to be psychoactive hemp may be processed by customers here into a hemp paste that can be used on the human body that may be considered by some as safe to use for medical purposes (Vardi, op cit p. 94). Apparently this is a gray area in the law that has not yet been examined by the FDA or the Federal Department of Agriculture or by state marijuana regulatory agencies.

Quick action is needed according to Mikey if he is to make profits out of this idea. First, the federal government Controlled Substances Act apparently prohibits the distribution of marijuana for medical uses and or sale of marijuana for recreational uses that have been passed by some states. Under the US Constitution, as interpreted by the US Supreme Court, the federal law is supreme and state law must yield to federal in many areas such as most commerce. Despite his oath of office to enforce the federal laws,
President Barrack Obama and his Attorney General, Eric Holder, may not have appropriately enforced these federal laws that make any usage of marijuana illegal in the United States. President Obama and Attorney General Holder do not support the present laws but they could perhaps be pressured by public opinion to change their minds at any time and start enforcing these laws as the US Constitution apparently would require until Congress changes the law. The failure of President Obama and Attorney General Holder to enforce these laws may also eventually lead to litigation in the federal courts which may well rule out any state approval of distribution of marijuana anywhere in the US without the approval of Congress.

Some politicians also are suggesting that President Obama and or Attorney General Holder should be removed from office because they are not upholding the requirement of their oaths of office to the Constitution that the executive branch of government enforce all the laws. Mikey does not believe that such a removal will occur even if the president's party loses control of both houses of Congress because few people have studied the Constitution and others may not consider this an important issue. Mikey is more worried that a new president elected in 2016 may decide to uphold the enforcement of laws regarding controlled substances as the Constitution apparently requires until Congress changes the laws which it may do subject to the approval of any legislation by the president. Perhaps an eventual change in laws by Congress may also lead to more government regulations as presently mostly the state regulations concentrate on how much marijuana is in the substance sold and there is no regulation of what other substances may be in the marijuana plants. Mikey is concerned also that some marijuana companies may not be successful in their operations and the stock bubble in marijuana stocks may end soon. Therefore, he has concluded that if he is to enter this business he must do so as soon as possible.

QUESTIONS FOR DISCUSSION

1. Do you think that Mikey can make a large sum of money if he enters this business at this time?

2. Is Mikey's business plan adequate planning to start a new business? If not, what else is needed?

3. Is Mikey's goal of making a lot of money during a rise in speculation a legitimate goal for a public corporation controlled by Mikey or is this merely a scam on innocent investors?

4. If such a plan might be considered a scam, should the SEC and or state corporate regulatory agencies adopt new regulations to minimize the risks of such speculation to innocent investors who may not understand the downside of such possible investments?

5. Should marijuana be a legal substance in any state that wishes to make it legal for medical purposes with adequate controls and perhaps for recreational use or is this a matter that should be decided by the federal Congress and be the same for the entire country?

6. Should US tax laws be revised to lower US taxes on corporations to levels found in most other countries to retain corporate capital and jobs in the US?

7. Do European countries have any responsibility to regulate export of substances such as industrial hemp that may be used in the US for purposes that may be considered by some to be possibly dangerous to the good health of ultimate purchasers in the US?
GOOD WEED, INC.
INSTRUCTOR'S NOTE

CASE SYNOPSIS

This case focuses on a successful real estate investor who wishes to change the mission of his public pink sheet listed corporation where he and his family owns most of the shares to get into the distribution of medical marijuana and other related products such as distribution of European industrial hemp which may contain some cannabidiol in some states that now allow distribution of such products for health reasons and for recreational use in a few states even though federal laws on drugs and related substances prohibit such activities. The current US administration has not been enforcing these federal laws in these states as the administration is sympathetic to the possible use of marijuana and related substances for health reasons and possibly also for recreational use. Consequently, there has been a boom in the price of penny stocks in the marijuana related industry and the investor who controls his public pink sheet listed corporation sees an opportunity to make large profits for himself and his family by focusing the new mission of the corporation on this new industry and selling some of his investment in the corporation to the public using the penny stock market at expected high profits due to the boom in this industry. The case looks at these issues and ethical issues in the sale of penny stocks.

COURSES AND LEVELS

This case can be used in several courses including Business Law, Investment Management, international Business and Business Strategy, as well as in Business Ethics courses. It is probably best used as an undergraduate case.

INTRODUCTION

The individual (Mikey Rizzoto) considering changing the mission of his listed pink sheet corporation from real estate to distribution of marijuana and related products served time in a prison as a young man for illegal distribution of drugs. Since leaving prison, he completed college and went on to a career of success in real estate sales and investment. He believes that the federal laws on distribution of marijuana and related products are wrong. He also is tempted to go into this industry because of a boom in penny stock prices of marijuana distribution stocks even though few companies if any have made a good return to date for such businesses. He thinks he can take advantage of this boom or bubble in the prices of marijuana distribution related corporations even before he gets into the distribution of these substances. He also thinks that there is little risk that the federal government under the present Obama administration will decide to begin enforcing the federal laws about distribution of drugs such as marijuana even if they lose control of both houses of Congress. The name of the individual and the size of his corporation have been changed to protect the confidentiality of the person and corporation discussed in this case.

SOCIAL & CULTURAL ENVIRONMENT

The social & cultural environment of the United States at the current time shows an ambivalence about the distribution of marijuana and related products. A significant part of the population of some states are sympathetic to the use of marijuana and related substances to try to alleviate or cure some diseases. Some persons are also sympathetic to the distribution and use of marijuana and related substances for recreational purposes and at least two states now allow this use under their current drug distribution policies (Colorado and Washington State). Even these two states insist that any marijuana distributed in their states must be grown in their states so a national market in marijuana distribution does not seem likely at this time. At the same time as there is some support for use of marijuana there is a strong effort to further regulate and to attempt to reduce smoking of tobacco along with a growing effort...
to regulate use of nicotine inhalers and nicotine patches which have become more profitable in the tobacco related industry. The failure of the current Obama administration to enforce all the federal drug laws regarding marijuana has alienated some persons who believe that the US Constitution requires all laws to be enforced by the administration until such laws are revised by Congress. Some persons believe that marijuana may be more harmful to the health of young persons than allowing the widespread distribution of marijuana for alleged health purposes to alleviate or cure some diseases. Thus, public opinion on the idea that marijuana and related products should be distributed to the public or to patients easily for some purposes is divided.

CORPORATE GOVERNANCE

Public pink sheet corporations are usually able to change their missions with approval of the board of directors of the corporation. In many jurisdictions in the USA, stockholders need not be asked to also formally approve a change of mission of a corporation. Some stock exchanges also do not require approval by the stock exchange of a change in mission of the corporation which is listed on the exchange on the pink sheets. Corporate boards of directors may also split the shares of stock without stockholder approval being required in some jurisdictions. Mr. Rizotto has control of a majority of shares in his pink sheet listed corporation and a friendly board of directors. He probably can get a change of the mission of this corporation accepted by the board of directors and can also get a split of stock that would make the price of shares listed for his corporation attractive to those who like to invest in penny stocks and are willing to speculate on the future price of a stock in the marijuana distribution field during the current high prices of such stocks even absent any real recent earnings in this field. The stock exchange on which his corporation is listed on the pink sheets has listed other stocks in the marijuana field. The attorney for the corporation must check all of this out before such changes can be recommended to the board of directors and to the stock exchange and to the state or states where the stock will be sold if needed under state blue sky laws after the proposed change in mission.

SOURCE NOTE

Information germane to this case is available at a number of sources. Students can find out much of this information on the internet looking up legalization of drug use, medical marijuana and related subjects. The growing controversy over possibly regulating use of nicotine inhalers and patches is also available on the internet or by consulting the Index to the New York Times and the Index to the Wall Street Journal and the Business Periodical Index and related sources. Cogent consideration of this case by the better students means that they will do this research especially if suggested to do so by the instructor.

PEDAGOGICAL METHOD

Instructors will need to play an active role in teaching this case. It is recommended that the instructor give a short lecture on businesses that may be illegal in some jurisdictions such as drug distribution and use, illegal gambling on sports, prostitution and organized crime in general. The organized criminal syndicates may in some industries and places prevent legal alternatives by physically threatening possible new competitors where drug distribution or something similar has taken place. For example bookmaking on horse races and sports survive despite legalization of such betting on off track betting in some states. The organized crime syndicate pays winnings quickly without disclosure to tax authorities the names and amounts of winners and can also illegally make loans for gambling available to their customers despite high interest rates by illegal lenders to gamblers through illegal bookmakers. Waste disposal by mob controlled garbage disposal companies may enable dumpers of trash to be able to more cheaply dispose of chemicals in air conditioners for example than could perhaps be done using trash collectors who follow the laws of disposing of such trash at a financial savings to the dumpers of the trash using mob controlled garbage disposal services that do not carefully follow the environmental regulations for trash disposal.
Lack of familiarity with the roles (the corporation promoter/owner -Mikey and a possible purchaser of the stock in his corporation by a speculator) will probably preclude role playing. Emphasis should probably be on discussing the major issues in the case such as legalization of drug distribution, recreational use of drugs such as marijuana, the ethics of penny stock distributors and their stock exchanges, the failure to follow the US Constitution by the Obama administration, and the difference in public opinion about regulating tobacco and regulating marijuana.

DISCUSSION QUESTIONS

1. Do you think that Mikey can make a large sum of money if he enters this business at this time?
   If Mikey follows the same process as other promoters of marijuana penny stocks, he can probably make a lot of money very quickly by selling some of his shares to speculators unless the boom in marijuana stocks collapses. Speculators in these stocks seem to be purchasing these stocks on the hopes that the boom in their prices (despite some setbacks) will continue. They seem to buy without looking at any of the standard investment fundamentals of Graham and Dodd and other traditional investment counselors and analysts. The lack of any significant earnings by any marijuana stocks to date does not seem to bother some of these speculators. If the boom turns into a bubble and the bubble collapses, whoever owns these stocks will take possibly large losses.

2. Is Mikey's business plan adequate planning to start a new business? If not, what else is needed?
   If Mikey is seriously considering a long term future in this business, his business plan is totally inadequate. He needs to study other distributors of these products. He needs to look at how the products will be acquired and at what price, how they will be marketed, operating practices to see that the laws of each state where operations will take place are followed in terms of who can purchase the products under state laws and how the product will be safely stored without access to persons who do not have any legal right under state law to purchase it. He also will have to study the success and policies of other distributors of this process to see what else will be required to make a profit over the long term for his shareholders. He will have to make financial projections as to when a breakeven can be achieved and how much profit can be projected for his shareholders using pro forma financial statements. If students have not studied business plans the instructor can ask them to look at standard business plans on the internet or can discuss developing a standard business plan with them using this business as an example.

3. Is Mikey's goal of making a lot of money during a rise in speculation a legitimate goal of a public corporation controlled by Mikey or is this merely a scam on innocent investors?
   Opinion on this issue is likely to be sharply divided depending on the philosophy of the students. Some will claim that purchase of stocks is a buyer beware situation. The average investor may never have the sophistication of a Warren Buffet and the buyer should always be wary. Buying stock based on hope without careful review of the proposed business plan and proposed financial projections may be foolish. Some persons like to gamble on stocks and others will need to take the standard Graham and Dodd approach to investing by carefully looking at all the numbers and considering other factors such as the vagueness of the legality of these new marijuana companies. Some will say that buyers should be allowed to gamble as they would like to do. Others will say that such kind of speculation should be regulated by governments.

4. If such a plan might be considered a scam, should the SEC and or state corporate regulatory agencies adopt new regulations to minimize the risks of such speculation to innocent investors who may not understand the downside of such possible investments?
   Stock promoters might be required by state or federal regulators to furnish prospective buyers of such stocks with warnings about the speculative nature of such investments. The instructor may discuss the state blue sky laws in the state where the school is located with students and they may then discuss
whether such regulations make sense or will more or less regulations be best in the long run public
interest.

5. Should marijuana be a legal substance in any state that wishes to make it legal for medical purposes
with adequate controls and perhaps for recreational use or is this a matter that should be decided by
the federal Congress and be the same for the entire country?

This is a matter that will have a lot of different opinions. Some persons will support the present
federal laws on these substances and they will suggest that these laws be enforced as required by the US
Constitution. Others will suggest amending the federal laws. Some others will say that they believe that
the federal laws be repealed and let any state regulate this situation as it wishes. Discussion of these issues
is usually helpful to students in deciding their own views on these issues.

6. Should US tax laws be revised to lower US taxes on corporations to levels found in most other
countries to retain corporate capital and jobs in the US?

Opinion on this is also divided. Some persons favor high corporate taxes and would increase present
levels of taxes on corporations even though it may cost a flight of jobs and business to other countries.
Others say present US tax policies on corporate taxes causes loss of jobs and business to other areas of the
world. The example within the US of companies moving to lower tax states is likely to be repeated
worldwide with disparity of taxes on corporations. Some others will go even further and say that there
should be no taxes on corporations and that present tax systems based on income should be eliminated
and replaced by consumption taxes.

7. Do European countries have any responsibility to regulate export of substances such as industrial
hemp that may be used in the US for purposes that may be considered by some to be possibly
dangerous to the good health of ultimate purchasers in the US?

Again, there is division of points of view on this topic. Some persons think that exports should be
regulated by the governments where they are manufactured. Others believe that this is the responsibility
of the governments of countries that import goods as is generally common at present and that additional
regulation by exporters will just increase the costs of regulation and is unnecessary. Countries attempting
to prohibit imports of illegal products, such as the US government, sometimes ask the help of other
governments to try to prevent production of illegal substances as is the case currently of asking the help of
governments in other countries to prevent growing of poppies that may be used to manufacture illegal
substances.
Information Technology Integration in a Postmerger Environment

Gloria S. Williams
Walden University

Roger W. Mayer
State University of New York at Old Westbury

Wen-Wen Chien
State University of New York at Old Westbury

Cecil R. Williams
Walden University

In this qualitative phenomenological study, we explore information technology integration in a postmerger environment from the perspective of midlevel and first-line managers. Interviews were conducted with 14 participants to identify factors affecting IT integration. The process school, which blends the strategic and organizational schools of thought, formed the basis of our study. Participants’ perception of loss emerged as a central theme; participants perceived the merger in terms of loss similar to the loss of a family member. The results of this study provide guidance that enables managers to mitigate negative issues and increase the possibility of a successful merger.

INTRODUCTION

The integration of information technology (IT) systems can be the difference between postmerger success and failure (Banal-Estañol & Seldeslachts, 2011; Carlsson, Hennigsson, Hrastinski, & Keller, 2011; Heimeriks, Schijven, & Gates, 2012). Integrating IT systems is potentially one of the most complex and expensive integration processes after an acquisition (Alaranta & Henningsson, 2008; Dao, 2010; Heimeriks et al., 2012). Mergers and acquisitions (M&A) have historically experienced poor return on investment and high failure rates (Carlsson et al., 2011). Prior research indicates that poorly executed postmerger or postacquisition integration efforts are detrimental to the success of the merger (Alaranta & Henningsson, 2008; Anderson, 2012). Consequently, understanding uncertainty and preparing for the entropy phenomenon in postmerger integration increases the probability of success.

The purpose of this study is to help decision makers, such as board of directors and CEOs, prepare for potential barriers in the integration of IT systems during the postmerger implementation process. This study identifies specific issues that form obstacles in the integration process. We conducted a phenomenological study by exploring the perceptions and lived experiences of midlevel and first-line managers in a manufacturing business environment when integrating information technology systems. Among the major descriptors, participants’ perception of loss emerged as a central theme; 86% of
participants related the event similar to the loss of a family member. This study provides guidance that enables managers to anticipate problems and develop strategies to increase the probability of a successful merger outcome.

The remainder of the paper is organized as follows. The next section describes the relevant literature. Next, we present the research question and methodology used in this paper. The data analyses and results are reported in the following section. The final section contains conclusion and limitations.

LITERATURE REVIEW

We frame the study using the process school theory, which includes strategic and organizational behavior concepts focusing on integration as the main factor in the success or failure of a merger, or acquisition (Finkelstein & Cooper, 2010). Integration is usually not the primary focus when organizations decide to embark on an M&A strategy (Alaranta & Henningsson, 2008; Anderson, 2012). However, integration issues create long-term performance issues (Francis & Shapiro, 2012; Maiga & Jacobs, 2009), higher customer attrition, loss of skilled employees, slowdown of introduction of new products, loss of momentum in quality programs, higher operating costs, inability to fill key capability positions, and a reduction in brand identity (Fubini, Price, & Zollo, 2007). Some causes of integration issues include weak leadership, lack of planning, poor communication, insufficient resources, and vague process definitions (Fish, 2007; Fubini et al., 2007; Zeffane, Tipu, & Ryan, 2011). Alaranta and Henningsson (2008) stated the success or failure of achieving good post deal performance depends on the integration. The level of employee trust in the company’s leaders is a crucial factor in the success of the integration effort (Ellis, Reus, & Lamont, 2009; Li, 2008; Van Wart, 2012).

IT is a function that should be normalized in order to support the strategy of the blended organization. The complexity and cost of integrating IT functions can be devastating to achieving long-term value (Dao, 2010). The integration of two or more merging organizations’ IT functions can be one of its greatest assets or one of its worst nightmares (Dao, 2010). Systems integration for business strategy has the potential to make or break balance sheets (Dao, 2010). Cording, Christmann, and King (2008) analyzed the success rates of M&As and the role of information systems technology in the merger process. The analysis indicated that information systems technology can be used to improve the chances of a successful merger. Cording et al. (2008) confirmed a correlation between information systems technology performance and the achievement of company goals. One of the performance factors identified was the speed of integration. Fish (2007) identified five interrelated integration factors that affect the success of a merger: leadership, communication, organizational culture, people, and strategy.

Leadership. Leaders use M&As to achieve an organization’s strategic and financial goals (Marks, 2007). However, they do not always recognize the difficulty of integrating the newly acquired organization. There is a tendency for leaders to underestimate the effort required to plan for the integration effort, especially the attention to the human element (Benton & Austin, 2010). Failure to recognize the need for a well thought out integration results in distractions, which affects organizational efficiency (Benton & Austin, 2010; Saunders, Altinay, & Riordan, 2009; Summers, Humphrey, & Ferris, 2012).

Communication. Timely and sufficient communication of information is vital to a successful M&A (Clayton, 2010). Management may overlook communicating information that could change employees’ jobs (Clayton, 2010). When news about an M&A appears, employee emotions range from fear and confusion to acceptance and excitement (Balle, 2008; Clark, Gioia, Ketchen, & Thomas, 2010). Clark et al. (2010) stated early communication that is honest, direct, and include a detailed rational assessment of the challenges and opportunities the integration process offers reduces the fear factor that misunderstandings and rumors create. Marks and Mirvis (2011) emphasized that effective and timely two-way communication along with staff involvement is critical. Staff involvement in the decision-making process decreases the level of resistance to change and effective communication increased staff’s ability to adopt a new culture and reduce stress levels (Clayton, 2010; Marks & Mirvis, 2012).
Culture. M&As have steadily increased over the past 20 years (Alaranta & Henningsson, 2008). Unresolved cultural distance is a reason for merger failure (Baughn, 2009; Marks & Mirvis, 2011, 2012). Allen (2012) stated that although technical integrations are difficult, the integration of organizational culture and the reaction of the human element in postmerger integration are even more difficult. Integration of distinct corporate cultures requires the alignment of goals and strategies (Alaranta & Henningsson, 2008). Baughn (2009) examined the correlation between corporate culture and the perceived success of organizational mergers. Weber, Belkin, and Tarba (2011) stated that difference in organizational cultures inhibits productive communication between members of the two organizations. Baughn (2009) concluded that organizations with similar cultures were more likely to have a successful merger. Culture clash is one of the most common causes for an M&A to fail to realize its full potential or achieve expected results (Badrtalei & Bates, 2007; Green & Colton, 2012; Marks & Mirvis, 2012).

People. Employees’ interpretation of the impact on their organizational identity could encourage or obstruct their acceptance of the changes needed to perform acquisition integration (Chreim, 2007). One of the key reasons for a merger’s failure is the lack of consideration of the human element (Giessner, Ullrich, & van Dick, 2011). Chreim (2007) stated that employees look for organizations that provide growth opportunities and may view the merger as an impediment to career growth. Guerrero (2008) reiterated the importance of focusing on all aspects of the M&A process, including the human element. Often, the single most significant obstacle in integration efforts was the failure to obtain employee commitment (Briscoe & Tsai, 2011; Giessner et al., 2011; Shin, Taylor, & Seo, 2012). A common concern of employees during an M&A was security in terms of loss of jobs or closure of facilities (Khalid & Rehman, 2011). Jetten and Hutchison (2011) stated that a break in continuity, such as an M&A, negatively affected people both individually and as a collective by increasing resistance to change. Summers et al. (2012) revealed a flux in coordination when core personnel changes are made, which led to a loss of communication.

Strategy. Some analysts advocated the integration of business functions and creation of common strategies as a means to create value (Ahern & Weston, 2007; Alaranta & Henningsson, 2008). Inconsistencies in corporate strategy is a precursor of failure (Fish, 2007; Fubini et al., 2007). Thus, Cording et al. (2008) stated that integrated strategy development should occur well in advance of the actual merger.

RESEARCH QUESTIONS

The central research question for this phenomenological study was:

What factors affect IT integration in a postmerger and postacquisition environment?

To achieve a deeper understanding of the phenomenon, we added two additional research subquestions. The subquestions relate to how IT integration can be framed within the definition of entropy, which is a measure of disorder in a closed but changing system (Michaelides, 2008).

1. What is the relationship between entropy and the five postmerger and postacquisition integration factors (leadership, communication, organizational culture, people, and strategy)?
2. What entropic relationships exist among postmerger and postacquisition integration factors?

SAMPLE SELECTION AND METHODOLOGY

Participants for this study were selected from IT departments in U.S. manufacturing organizations that have completed the integration process of information systems after an M&A within the past 5 years and that employ more than 500 employees. Four manufacturing organizations were selected. From this number, there were 340 first-line and mid-level managers, of which 102 managers worked in information technology. We reduced these 120 managers to 35 who were with the most significant interface with information systems. Of these 35 potential participants, 14 individuals, who met the requirements for participation in the study, were selected as primary participants. Our sample was large enough to assure that the number of participants was large enough to provide information up to the saturation point without
becoming redundant (Green, Chung-Chin, & Larsen, 2010). We used an interview instrument (see Appendix), consisting of open-ended questions to collect data from the employees selected. The interviews were conducted face to face when possible. If a face-to-face meeting could not be arranged, the interview was conducted via telephone.

DATA ANALYSIS AND RESULTS

Interview questions 1 and 2 centered on eliciting participants lived experiences to the research question, “What factors affect IT integration in a postmerger and postacquisition environment?” The participants’ perceptions in postmerger and acquisition integrations ran the gamut of negative feelings, negative reactions, and negative working environments. The answers to the questions were explored by using a word frequency query. The list was reduced to include only the words that were entropy descriptors. The participants whose interview answers included each of these descriptors were then identified. The number of times the participants used the descriptors was not used as a basis for identification of major entropy descriptors; instead the participants’ use of a descriptor was counted only once. Once the number of participants who used each of the words identified was tallied, any descriptor which was used by four or more participants was considered a major entropy descriptor. Any descriptor which was used by fewer than three was considered a minor entropy descriptor. The descriptors were classified into three entropy descriptor categories including feeling, reaction, and environment.

All participants’ responses contained at least 1 descriptor in each entropy descriptor category. Twelve participants (86%) perceived entropy in terms of loss.

Anger. Anger was a major entropy descriptor for 50% of participants. Participants felt angry when they perceived they were not taken seriously or felt their leaders had betrayed them. Feelings of anger were not limited to the members of the acquired organization.

Arrogance. Arrogance was a major entropy descriptor for 42.9% of participants. The main concern of participants was the arrogant manner in which the members of the acquiring company interacted with people from the acquired company. However, not all postacquisition integrations perceived originated from the acquiring company. One participant commented on the arrogance of the acquired company in terms of its effect on the merged organization.

Chaos. Chaos was a major entropy descriptor for 28.6% of participants. The primary perception by participants was that chaos was a direct result of poor leadership during the system integration effort.

Clash. Clash was a major entropy descriptor for 42.9% of participants. Clash was perceived as a result of differing organizational cultures and the inability for either side to embrace change.

Complaining. Complaining was a major entropy descriptor for 35.7% of participants. Participants felt the main reason for the constant complaining was it served as a means for getting one’s own way despite the fact that it may not be the most beneficial way for the company.

Conflict. Conflict was a major entropy descriptor for 28.6% of participants. Participants perceived conflict as a result of dissimilar cultures, management styles, and personalities.

Confusion. Confusion was a major entropy descriptor for 35.7% of participants. Participants’ perception of confusion was a result of communication discrepancies, the lack of timely, honest communication by leadership, and the short integration timeline.

Difficult. Difficult was a major entropy descriptor for 78.6% of participants. Participants’ perception of difficult centered on the inability of the leadership to make a decision and stand behind that decision, and dealing with people who are not team players.

Distrust. Distrust was a major entropy descriptor for 50% of participants. Participants’ perception of distrust centered upon having to work with people from the other organization. People become distrustful of new people, especially when they are nervous about possibly losing their jobs to these same people.

Egotism. Egotism was a major entropy descriptor for 50% of participants. Participants’ perception of egotism was based on the actions of people from both sides of the acquisition.

Fear. Fear was a major entropy descriptor for 50% of participants. Participants’ perception of fear centered upon the fear of losing their jobs and security.
Fighting. Fighting was a major entropy descriptor for 42.9% of participants. Participants’ perception of fighting was based on the actions of company leaders’ in-fighting and attempts to provide themselves a position in the integrated organization, as well as preserve the systems and policies for which they felt ownership.

Friction. Friction was a major entropy descriptor for 42.9% of participants. Participants’ perception of friction was based on interaction with personnel from the other company during the integration decision making process and while trying to work together to accomplish the day-to-day tasks required to keep the company running.

Frustration. Frustration was a major entropy descriptor for 64.3% of participants. Participants’ perception of frustration was a result of the length of time it took to get anything accomplished and the unwillingness of some people to accept any kind of change.

Hurt. Hurt was a major entropy descriptor for 35.7% of participants. Participants’ perception of hurt focused on two distinct aspects: (a) hurt feelings, and (b) hurting the company.

Loss. Loss was a major entropy descriptor for 85.7% of participants. Participants’ perception of loss emerged as a central theme resulting from post integration loss of coworkers, friends, family, home, and systems in which they took ownership and pride.

Misunderstood. Misunderstood was a major entropy descriptor for 28.6% of participants. Participants’ perception of misunderstanding focused on the loss of productivity resulting from misunderstandings either real or bogus.

Painful. Painful was a major entropy descriptor for 57.1% of participants. Participants’ perception of painful was expressed in both physical and mental pain.

Pressure. Pressure was a major entropy descriptor for 50% of participants. Participants’ perception of pressure resulted from their sense of achieving outcomes despite the numerous roadblocks that they faced.

Resentment. Resentment was a major entropy descriptor for 28.6% of participants. Participants’ perception of resentment was that it resulted from the reaction of people who felt that they should have kept their jobs.

Resistance. Resistance was a major entropy descriptor for 50% of participants. Participants’ perception of resistance was focused on reactions from the personnel of the acquired company.

Shock. Shock was a major entropy descriptor for 28.6% of participants. Participants’ perception of shock was the unexpected announcement that the acquiring company would be moving to the acquired company’s ERP system followed by terminations and relocation of employees from the acquiring company.

Strained. Strained was a major entropy descriptor for 28.6% of participants. Participants’ perception of strained centered on relationships between people of the acquiring and acquired organizations.

Stressful. Stressful was a major entropy descriptor for nine participants. Participants’ perception of stressful centered on the state of the environment in which they had to work. So much needed to be done, but there was chaos, which resulted in increasing stress levels.

Suffering. Suffering was a major entropy descriptor for 35.7% of participants. Participants’ perception of suffering was that it is a side-effect of loss of talent, pressure, and the disconnect between employees and company leaders.

Tough. Tough was a major entropy descriptor for 5 participants. Participants’ perception of tough resulted from difficulty in the relationships between people from the two sides of the integration, and the work environment they created.

Troubling. Troubling was a major entropy descriptor for 28.6% of participants. Participants’ perception of troubling grew out of not understanding or being able to rationalize the actions of leadership.

Turmoil. Turmoil was a major entropy descriptor for 28.6% of participants. Participants’ perception of turmoil was described the environment in which they worked during the integration process.

Uncooperative. Uncooperative was a major entropy descriptor for 35.7% of participants. Participants’ perception of uncooperative resulted from interaction with people from one particular acquisition.
**Unknown.** Unknown was a major entropy descriptor for 28.6% of participants. Participants’ perception of the unknown focuses on the people’s fear of the unknown and their ability to plan correctly when the process is unknown.

**Waste.** Waste was a major entropy descriptor for 42.9% of participants. Participants’ perception of waste centered upon wasted effort by employees, and the resulting unproductive efforts by all involved.

**Worry.** Worry was a major entropy descriptor for 28.6% of participants. Participants’ perception of worry was closely associated with the loss of employment after the integration.

**Research Subquestion 1**

Interview questions 11, 12, and 13 centered on eliciting participants’ lived experiences concerning the research subquestion: What is the relationship between entropy and the five post merger and postacquisition integration factors? All 14 participants responded to the interview questions. The factor interviewees perceived as having most increased the entropy phenomenon was communication (35.7%), especially the lack of honest, timely communication, followed by leadership (28.6%). The factor the interviewees perceived as the one that most decreased the entropy phenomenon was leadership (57.1%), followed by communication (28.6%).

The factor the interviewees perceived as the one which most inhibited the entropy phenomenon was leadership (42.9%).

**Communication factors findings.** Interview question 3 focused on the interviewees’ perception of the relationship between communication and entropy. All 14 participants (100%) experienced entropy as a result of communication. The participants’ responses were grouped into four themes: (a) two-way communication, (b) quality of communication, (c) lack of communication, and (d) honest, timely communication.

Two-way communication was a concern for 28.6% of participants. The effects of not having two-way communication resulted in distrust, misunderstandings, and suspicion on the part of the employees that feel they have no voice in the process.

Quality of communication was a concern for 42.9% of participants. Incomplete or inaccurate communication became a source of anxiety, frustration, and a sense of abandonment by the leadership of the company. There existed a perception that some managers were withholding information because of control issues. The perception was that IT personnel was usually the last to know about any initiative, that meetings were held without an IT presence, and decisions were made and communicated to IT personnel when it was too late to take appropriate action to ensure that the company’s infrastructure would support current and future endeavors.

Lack of communication was a concern for 35.7% of participants. Participants experienced a lack of communication, which resulted in stalling initiatives and a reduction in synergies. Decisions were being made that affected all locations without any input from anyone from the locations. Participant 1 stated, “the lack of communication was staggering and debilitating.”

Honest, timely communication was a concern for 28.6% of participants. Participants described the communication during integration as cryptic, confusing, and at times suppressed altogether. Some experienced delayed or dishonest communication resulting from some company members’ private agendas.

**Leadership factor findings.** Interview question 5 focused on the interviewee’s perception of the relationship between leadership and entropy. Thirteen of the participants (92.9%) experienced entropy as a result of leadership. One participant (7.1%) was neutral as a result of being shielded by their manager. The participants’ responses were grouped into 5 themes: (a) engagement and commitment, (b) vision, (c) flexibility, (d) accountability, and (e) communication.

Engagement and commitment was a concern for 28.6% of participants. Participants experienced the perception that the integration effort was not fully supported by the senior members of the organization during the integration. They also perceived senior leaders were not fully engaged and committed to the integration process and the decisions they had made, and when they got push back from the acquired company, they just let them have their way rather than deal with the problems. Vision was a concern for 21.4% of participants. The participants perceived that the acquiring company lacked a well-defined vision...
and a well thought-out roadmap to enable achieving the vision. Instead, the perception was the leaders were arrogant and unwilling to listen to any ideas from members of the acquired company; this perception was shared by some of the members of the acquiring company.

Flexibility was a concern for 14.3% of participants. The participants’ perception was that the acquiring company’s leaders were unable to take advantages of opportunities due to the rigidity of their leadership style. At a time when the company leaders needed the flexibility to become change masters, they held on to their old ways.

Accountability was a concern for 14.3% of participants. The participants’ experiences demonstrated that leaders of the company were not held accountable for their actions. In some cases, the leadership pushed the decision making down to the people who reported to them so that if something went wrong it would not be their fault; they would just fire the person who was forced to make a decision. Participants also perceived that some leaders were not fully committed to the company and they were preparing for their next employment opportunity.

Communication was a concern for 42.9% of participants. Participants perceived a lack of clear communication from leadership. The perception was that the leadership team does a poor job of communicating the overall company vision and the type or organizational culture they envision for the merged company. In the instance of one acquisition, the lack of communication resulted in the acquired company still operating on its own ERP system and a loss of any synergy that could have been achieved.

**Organizational culture factor findings.** Interview question 4 focused on the interviewee’s perception of the relationship between organizational culture and entropy. All 14 participants (100%) experienced entropy as a result of organizational culture. The participants’ responses were grouped into four themes: (a) public vs. private, (b) old school culture, (c) resistance to change, and (d) cultural pride.

Public vs. private was a concern for 71.4% of participants. Participants perceived the clash of publicly owned acquiring company and privately owned acquired company as one of the hardest cultural difference with which to contend. Participant 10 stated, “As we have seen, although we are in the same type of business, the culture differs greatly from organization to organization. Especially when it’s a privately held organization and the other is a publically held organization.”

Old school culture was a concern for 28.6% of participants. Participants’ perception of the acquiring company’s culture was that it was a very old school, chain of command culture. In addition, the culture was riddled with red tape that stifled creativity and collaboration. Resistance to change was a concern for 35.7% of participants. Participants’ perception of resistance to change came from the acquired company’s employees not embracing the practices and policies of the acquiring company. In addition, after the decision was made to migrate the acquiring company to the acquired company’s system platform, the resistance was two-sided.

Cultural pride was a concern for 28.6% of participants. Participants’ perception of cultural pride resulted from being told that they needed to move off the system that they had expended time and effort building; they were proud of the system they had created and the culture they had built for their organization. The two organizations had been rivals for many years and it seemed almost impossible to suddenly think of them as part of their team.

**People factor findings.** Interview question 6 focused on the interviewee’s perception of the relationship between people and entropy. All 14 participants (100%) perceived people as a contributor to entropy. The participants’ responses were grouped into six themes: (a) attitude and conflict, (b) buy-in, (c) empowerment, (d) leadership, (e) trust, and (f) resistance to change.

Attitude and conflict were concerns for 35.7% of participants. Participants’ perception of attitude and conflict was based on strained relationships between the acquiring and the acquired personnel, the differing cultures, personality conflicts, and people on both sides of the acquisition who had not bought in to the integration changes. Buy-in was a concern for 14.3% of participants. Participants’ perceived a lack of buy-in from individuals from both sides of the acquisition. One problem was the feeling from members of the acquired company that the leaders from the acquiring company could not be trusted and that every change had to be scrutinized to determine if they were up to something. Empowerment was a concern for 21.4% of participants. Participants perceived the employees from the acquired company from one
acquisition were just not adequately intelligent because they did not have the corporate image that was expected of them. As a consequence, the participants felt the people from the acquired company were not empowered to perform to the best of their ability; they felt their input was neither needed nor appreciated. Leadership was a concern for 28.6% of participants. Participants from the acquiring company perceived a lack of support and appreciation from their leaders. They felt they had been betrayed when the decision was made to move the corporate offices. Participants from both sides of the acquisition perceived a lack of leadership ability to promote a combined organizational culture; instead they turned a blind eye to the in-fighting and posturing that was killing productivity. Trust was a concern for 28.6% of participants. Participants described the issue of trust in terms of not trusting the members of the acquiring company due to the potential loss of their jobs. During the integration process, new people were added to the organization; the participants tended to distrust until proven trustworthy rather than trust until proven otherwise. Resistance to change was a concern for 14.3% of participants. Participants on both side of the acquisition experienced resistance to change. The acquired organization's employees resisted the change imposed on their processes and procedures, and the acquiring organization's employees resisted because they were being forced to give up their system and platform to migrate to the acquired organization's system.

Strategy factor findings. Interview question 7 focused on the interviewee’s perception of the relationship between strategy and entropy. All 14 participants (100%) perceived strategy as a contributor to entropy. The participants’ responses were grouped into five themes: (a) lack of a comprehensive strategy, (b) vision, (c) unrealistic expectations, (d) synergy, and (e) commitment to strategy.

Lack of a comprehensive strategy was a concern for 6 participants (42.9%). There was a perception by many participants on both sides of the acquisition that leadership did not actually have a long term as well as a short-term strategy. Vision was a concern for 28.6% of participants. Participants’ perception of a lack of vision was driven partially by the old school mentality in addition to having leaders who had never been exposed to alternate methods for achieving the end goal of the company. In addition, there was a perception that the leaders had not given enough time during the discovery period to actually know how difficult it would be to integrate the two organizations. There was a general perception that none of the leaders actually had a good understanding of the big picture.

Unrealistic expectations were a concern for 2 participants (14.3%). Participants’ perception of the integration process timeline was that it was too aggressive considering the complexity of the project. The time period in which one of the integration efforts was done was during a time of federal regulation changes and new product launches.

Synergy was a concern for 2 participants (14.3%). Participants experienced a great deal of expectation from upper management for huge synergies without having a plan to leverage synergies. Participants felt that the synergies that could have been leveraged were not; especially any type of synergies from the second acquisition.

Research Subquestion 2

Interview questions 3, 4, 5, 6, 7, and 8 centered on eliciting participants’ lived experiences concerning the research subquestion 2: What entropic relationships exist among postmerger and postacquisition integration factors? All 14 participants responded to the interview questions. All participants perceived the 5 entropy factors of communication, leadership, organizational culture, people, and strategy to be interrelated. The consensus was that leadership would be the driving force behind the other factors. Leadership establishes the organizational culture, sets the strategy, determines the level of communication, and sets policies that guide the hiring of the company’s workforce.

Participants’ perceptions of communication and entropy were grouped into 4 categories: (a) two-way communication, (b) quality of communication, (c) lack of communication, and (d) honest, timely communication. Two-way communication was a concern for 14.3% of participants. The effects of not having two-way communication resulted in distrust, misunderstandings, and suspicion on the part of the employees that feel they have no voice in the process. Quality of communication was a concern for 42.9% of participants. Incomplete or inaccurate communication became a source of anxiety, frustration, and a
sense of abandonment by the leadership of the company. There existed a perception that some managers were withholding information because of control issues. The perception was that IT was usually the last to know about any initiative; meetings were held without an IT presence, and decisions were made, and IT found out when it was too late to take appropriate action to ensure the company’s infrastructure would support current and future endeavors. Lack of communication was a concern for 35.7% of participants. Participants experienced a lack of communication, which resulted in stalling initiatives and a reduction in synergies. Decisions were being made that affected all locations without any input from anyone from the locations. Honest, timely communication was a concern for 28.6% of participants. Participants described the communication during integration as cryptic, confusing, and at times suppressed altogether. Some experienced delayed or dishonest communication resulting from some company members’ private agendas.

Participants’ perception of leadership and entropy was grouped into 5 categories: (a) engagement and commitment, (b) vision, (c) flexibility, (d) accountability, and (e) communication. Engagement and commitment was a concern for 28.6% of participants. Participants experienced the perception that the integration effort was not fully supported by the senior members of the organization during the integration. There was also the perception that senior leaders were not fully engaged and committed to the integration process and the decisions they had made, and when they got push-back from the acquired company, they just let them have their way rather than deal with the problems. Vision was a concern for 3 participants (21.4%). The participant’s perceived that the acquiring company lacked a well-defined vision and a well thought-out roadmap to make that vision achievable. Instead, the perception was the leaders were arrogant and unwilling to listen to any ideas from members of the acquired company; this perception was shared by some of the members of the acquiring company. Flexibility was a concern for 2 participants (14.3%). The participants’ perception was that the acquiring company’s leaders were unable to take advantages of opportunities due to the rigidness of their leadership style. At a time when the companies needed the flexibility to become change masters, they held on to their old ways. Accountability was a concern for 14.3% of participants. The participants’ lived experiences were that the leadership of the company was not held accountable for its actions. In some cases, the leadership pushed the decision making down to the people who reported to them so if something went wrong it would not be their fault, they would just fire the guy who was forced to make a decision. Participants also perceived that some leaders were not fully committed to the company and they were preparing for their next employment opportunity. Communication was a concern for 42.9% of participants. Participants perceived a lack of communication from leadership. In the instance of one acquisition, the lack of communication resulted in the acquired company still operating on their own ERP system and the loss of any synergy that could have been achieved.

Participants’ perception of organizational culture and entropy was grouped into four categories: (a) public v. private, (b) old school culture, (c) resistance to change, and (d) cultural pride. Public v. private was a concern for 71.4% of participants. Participants perceived the clash of publically owned acquiring company and privately owned acquired company as one of the hardest cultural difference with which to contend. Old school culture was a concern for 28.6% of participants. Participants’ perception of the acquiring company’s culture was that it was a very old school, chain of command culture. In addition, the culture was riddled with red tape that stifled creativity and collaboration. Resistance to change was a concern for 35.7% of participants. Participants’ perception of resistance to change came from the acquired company’s employees not embracing the practices and policies of the acquiring company. In addition, after the decision was made to migrate to the acquired company’s system platform, the resistance was two-sided. Cultural pride was a concern for 28.6% of participants. Participants’ perception of cultural pride resulted from being told they needed to move off the system they had expended so much time and effort building; they were proud of the system they had created and the culture they had built for their organization. The two organizations had been rivals for many years and it seemed almost impossible to suddenly think of them as part of their team.

Participants’ perception of people and entropy was grouped into six categories: (a) attitude and conflict, (b) buy-in, (c) empowerment, (d) leadership, (e) trust, and (f) resistance to change. Attitude and conflict was a concern for 35.7% of participants. Participants’ perception of attitude and conflict was
based on strained relationships between the acquiring and the acquired personnel, the differing cultures, personality conflicts, and people on both sides of the acquisition who had not bought-in to the integration changes. Buy-in was a concern for 14.3% of participants. Participants’ perceived a lack of buy-in from individuals from both sides of the acquisition. One problem was the feeling from members of the acquired company that the leaders from the acquired company could not be trusted and that every change had to be scrutinized to determine if they were up to something. Empowerment was a concern for 21.4% of participants. Participants perceived the employees from the acquired company from one acquisition were just not that bright because they did not have the corporate image that was expected of them. As a consequence, the participants felt that the people from the acquired company were not empowered to perform to the best of their ability; they felt their input was neither needed nor appreciated. Leadership was a concern for 28.6% of participants. Participants from the acquiring company perceived a lack of support and appreciation from their leaders. They felt they had been betrayed when the decision was made to move the corporate offices. Participants from both sides of the acquisition perceived a lack of leadership ability to promote a combined organizational culture; instead they turned a blind eye to the infighting and posturing that was killing productivity. Trust was a concern for 28.6% of participants. Participants described the issue of trust in terms of not trusting the members of the acquiring company due to the potential loss of their jobs. During the integration process, new people were added to the organization; the participants tended to distrust until proven trustworthy rather than trust until proven otherwise. Resistance to change was a concern for 14.3% of participants. Participants on both side of the acquisition experienced resistance to change. The acquired organization’s employees resisted the change imposed on their processes and procedures, and the acquiring organization’s employees resisted because they were being forced to give up their system and platform to migrate to the acquired organization’s system.

Participants’ perception of strategy and entropy was grouped into five categories: (a) lack of a comprehensive strategy, (b) vision, (c) unrealistic expectations, (d) synergy, and (e) commitment to strategy. Lack of a comprehensive strategy was a concern for 42.9% of participants. There was a perception by many participants on both sides of the acquisition that leadership did not actually have a long-term as well as a short-term strategy. Vision was a concern for 28.6% of participants. Participants’ perception of a lack of vision was driven partially by the old school mentality in addition to having leaders who have never been exposed to alternate methods for achieving the end goal of the company. In addition, there was a perception that the leaders had not given enough time during the discovery period to actually know how difficult it would be to integrate the two organizations. There was a general perception that none of the leaders actually had a good understanding of the big picture.

Unrealistic expectations were a concern for 14.3% of participants. Participants’ perception of the integration process timeline was that it was too aggressive considering the complexity of the project. The time period in which one integration was done was a time when federal regulation changes had to be met and new product launches. Synergy was a concern for 14.3% of participants. Participants experienced a great deal of expectation from upper management for huge synergies without having a plan to leverage synergies. Participants felt that the synergies that could have been leveraged were not; especially any type of synergies from the second acquisition. Commitment to strategy was a concern for 14.3% of participants. Participants perceived an inability for leaders to commit to their strategy. Participants experienced a lack of commitment by leaders to make the tough call when necessary and achieve all of the synergies that had been alluded to their stakeholders.

CONCLUSION AND FUTURE STUDIES

The results of this study expand our understanding of change management applicable to postmerger and postacquisition information technology integration. The goal was to identify, understand, and reduce disruption and disorder between the leadership, middle management, and key employees during postmerger and postacquisition integration of information technology solutions. The study results reveal areas in which management can make advance planning strategies to promote minimal entropy and
maximize productivity during the integration of postmerger and postacquisition information technology integration. Our research suggests that entropy factors interrelate. The results support the process school theory. Therefore, a change in one entropy factor was likely to affect other entropy factors. The primary recommendation from this study is the creation of a merger team, prior to commencement of merger activities, which will be responsible for creating a comprehensive merger plan.

The number and variety of factors identified during this research suggests that additional research in different business settings would add significantly to the body of knowledge and increase understanding of the entropy factor in the merger process. Added knowledge about the extent of entropy and the effects on mergers outcomes may increase the chances for achieving the desired results.

REFERENCES


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APPENDIX – INTERVIEW QUESTIONS

1. Please describe how you would characterize the nature of entropy during postmerger and postacquisition integration.
2. What specific experiences drive your views of entropy during postmerger and postacquisition integration? Please provide examples.
3. What is the relationship between communication and entropy during postmerger and postacquisition integration? Please provide examples.
4. What is the relationship between organizational culture and entropy during postmerger and postacquisition integration? Please provide examples.
5. What is the relationship between leadership and entropy during postmerger and postacquisition integration? Please provide examples.
6. What is the relationship between people and entropy during postmerger and postacquisition integration? Please provide examples.
7. What is the relationship between strategy and entropy during postmerger and postacquisition integration? Please provide examples.
8. When considering communication, organizational culture, leadership, people, and strategy, how would you describe the relationship among these factors in terms of entropy during postmerger and postacquisition integration? Why?
9. How would you characterize different states or levels of entropy during postmerger and postacquisition integration?
10. What specific experiences drive your views of states or levels of entropy during postmerger and postacquisition integration? Please provide examples.
11. When considering communication, organizational culture, leadership, people, and strategy, which of these factors contributes the most to increasing entropy during postmerger and postacquisition integration? Why?
12. When considering communication, organizational culture, leadership, people, and strategy, which of these factors contributes the most to decreasing entropy during postmerger and postacquisition integration? Why?
13. When considering communication, organizational culture, leadership, people, and strategy, which of these factors contributes the most to inhibiting entropy during postmerger and postacquisition integration? Why?
14. How would you describe the negative impacts of entropy during postmerger and postacquisition integration? Please provide examples.
15. How would you describe the positive impacts of entropy during postmerger and postacquisition integration? Please provide examples.
16. In your experience, what other factors or considerations contribute to or impact entropy during postmerger and postacquisition integration? Why? Please provide examples.
Stewardship Governance: Fostering Ethical Work Climates and Covenantal Relationships

Curtis F. Matherne, III
University of Louisiana at Lafayette

Recent corrupt behavior on behalf of American businesses and corporate executives suggests that a rethinking of the relationship between corporate governance and organizational ethics is required. The dominant governance approach of agency theory has fostered an emphasis on short-term profit and self-serving behavior. This paper suggests that stewardship theory offers an attractive alternative to existing governance models and argues that a stewardship approach is likely to facilitate more ethical work climates and covenantal relationships between employers and employees, both of which have been shown in the literature to promote positive attitudes and behaviors, as well as ethical decision making.

Corporate scandals in the United States have generated criticism, along with an increased level of public distrust and accompanying loss of confidence in American businesses (Brown, 2005). Clearly, there is a need for a renewed sense of moral responsibility and subsequent ethical conduct in organizations. The literature suggests that multiple factors such as employee selection, ethics training, organizational rules and consequences, codes of ethics, and reward systems influence ethical conduct (e.g. Jones, 1991; Trevino, 1986; Valentine and Barnett, 2003; Wiley, 1995, 1998). In this paper, I suggest that a more fundamental approach to the problem of unethical behavior, rooted in the assumption of corporate governance, is needed. Stewardship theory (Davis, Schoorman, & Donaldson, 1997) shows promise as an alternative perspective on the nature of human beings, their relationships to the organizations to which they belong, and their ethical decision making processes.

Davis et al. (1997) define the stewardship approach to governance as one in which individuals are not motivated by maximizing self-interest, but whose motivations are derived from their concern for organizational objectives. Stewardship theory is founded on the assumption that employees will engage in pro-organizational actions and behaviors and act in the long-term best interest of the organization. This theory leads to a governance model opposite to that of agency theory (Jensen & Meckling, 1976), where control mechanisms are required to align the interests of managers and shareholders. Agency theory focuses almost exclusively on economic assumptions as the basis for motivation and ignores the intricacies of organizational life as a behavioral influence. As proposed by Doucouliagos (1994), additional theory is needed to explain non-economic organizational relationships.

Although stewardship theory was introduced to organizational studies nearly 10 years ago, agency theory has continued to dominate governance structures in the United States. Unfortunately, agency theory paints a negative picture of managers and organizations in which self-interest is the prevailing motivation of behavior. Just before his death, Ghoshal (2005:81) made a stirring call for a re-assessment of the assumptions underlying organizational governance where managers and organizations are positive contributors to corporate and societal welfare.
“Why do we not fundamentally rethink the corporate governance issue? Why don’t we actually acknowledge in our theories that companies survive and prosper when they simultaneously pay attention to the interests of customers, employees, shareholders, and perhaps even the communities in which they operate?”

To date, stewardship has failed to gain widespread acceptance as a basis for organizational governing structures. The reason, according to Ghoshal (2005), is that stewardship theory cannot be “elegantly modeled.” Therefore, there is a lack of empirical evidence for its viability. Ghoshal (2005: 81) maintains that stewardship theory does not readily yield sharp, testable propositions or provide simple, reductionist prescriptions. Donaldson (2005) disagrees to the extent of stewardship’s shortcomings proposed by Ghoshal, but does recognize the need for the development and application of stewardship theory to aid in its proliferation as a viable governance approach. Although stewardship has not gained widespread acceptance in practice, it is clear that its underlying assumptions have implications for ethical decision making in business context. This paper attempts to link the notion of stewardship to issues of organizational morality through its impact on ethical work climates and strong covenantal relationships between employers and employees.

Ethical work climates reflect an agreed perception of ethical behavior and thus guide the decision process. Work climates are characterized along three ethical criteria of moral judgment: egoism, benevolence, and principle and three loci of analysis: individual, local, and cosmopolitan (Victor & Cullen, 1988). The ethical criteria of egoism, benevolence, and principle are derived from Kohlberg’s (1984) theory of moral development and form the three basic ethical climates. The loci of analysis criteria of individual, local, and cosmopolitan identify types of referent groups used as a basis for application of ethical criteria to organizational decisions. Cullen, Victor, and Bronson (1993: 669) suggest that these two dimensions combine to form a construct depicting perceptions of how organizational members make decisions. Further, the nature of perceived ethical climate in organizations has been shown to impact organizational members’ attitudes and behaviors; further, climates emphasizing benevolence or principle lead to organizationally desired outcomes (e.g. Barnett & Vaicys, 2000; Cullen, Parboteeah, & Victor, 2003; Fritzsche, 2000; Ruppel & Harrington, 2000).

Noted desired outcomes linked to ethical work climates are covenantal relationships (Van Dyne, Graham, & Dienesch, 1994), which are types of relational contracts founded in a mutual commitment to the welfare of both employee and employer. Covenantal relationships have also been linked conceptually to stewardship theory (Caldwell, Bischoff, & Karri, 2002; Caldwell & Karri, 2005). Covenantal relationships emphasize mutual values and concern for the welfare of involved parties (Barnett & Schubert, 2002). Perceptions of covenantal relationships by employees tend to engender organizational citizenship behaviors (Van Dyne et al., 1994). Employees who perceive a covenantal relationship with their employers are likely to exhibit attitudes and behaviors beneficial to their respective organizations.

I suggest in this paper that organizations adopting stewardship theory are more likely to foster environments conducive to perceptions of positive ethical climates and strong covenantal relationships. Specifically, I propose that ethical climates will mediate the relationship between stewardship governance approaches and covenantal relationships. Figure 1 illustrates the proposed relationships in this study.
Stewardship theory proposes a different “model of man” than that of agency theory. This model “is based on a steward whose behavior is ordered such that pro-organizational, collectivistic behaviors have higher utility than individualistic, self-serving behaviors” (Davis, Schoorman & Donaldson, 1997: 24). Argyris (1973) describes the person depicted in stewardship theory as one who works beyond self-serving needs to behaviors directed at the needs and values of the principal. Davis and colleagues also describes governance structures conducive to success for steward behaviors. When a steward’s “autonomy” is intentionally broadened, due to high levels of trust from the principal, he or she will complete tasks more effectively than when control mechanisms are put in place to monitor actions. Therefore, what works well to control or motivate an opportunistic manager may not work well to control or motivate a steward (Lee & O’Neill, 2003).

Agency theory focuses primarily on the divergence of interests between the owner and manager. Conversely, the actions of a steward are derived from and aimed at the principal’s contentment and organizational successes. Stewards are trustworthy individuals and work meticulously to achieve the goals of the company and shareholder’s returns (Donaldson & Davis, 1994). Drawing upon its roots in sociology and psychology, stewardship depicts individuals as having higher-order needs for self esteem, self-actualization, and affiliation (Arthurs & Busenitz, 2003). A steward’s behavior can be regarded as organizationally centered. This involves a relationship of trust where the word of the steward can be taken as his or her bond (Williamson, 1975). Stewards are not motivated by self-interest, but by what is in the best interest of the group or organization.

Stewardship and agency theories lead to very different views of organizational governance. Various means are employed to represent the respective assumptions of each theory. Agency theory is founded on the motivational assumption of man as a self-serving individual who seeks the maximization of his own personal utility (Jensen & Meckling, 1976). In order to align interests of both principal and agent in these relationships, principals attempt to limit departure from their interests by offering monetary incentives
and by instituting control mechanisms to monitor actions of the agent. As noted earlier, stewardship theory embraces a different model of individual motivation. This view revolves around organizationally-centered motivations which transcend self-serving behaviors. When applied to a governance model, the organization is structured in such a way to maximize the long term health of the company, as well create a culture that fosters reciprocal trust and moral development (Pava, 2003).

A chief issue delineating the two theories of stewardship and agency is trust. Agency theory assumes minimal vested trust in managers, as agents are regarded as self-interest seeking and thus must be constantly monitored. Stewardship presumes greater trust, as agents are assumed to be motivated by higher order needs of growth, achievement, self-actualization and place considerable value on sustained organizational health.

Basing a governance system on reciprocal trust and moral development provides the avenue for the institutionalization of ethics within an organization. As shown in this paper, the underlying philosophy of a stewardship governance structure provides the context for positive ethical work climates and covenantal relationships to flourish, which can guide ethical behavior and decision making.

Ethical Work Climates

Victor and Cullen (1987: 51-52) define ethical climate as the "the shared perceptions of what is ethically correct behavior and how ethical issues should be handled." An organizational ethical climate is a normative construct of the mutual appraisal of policies, procedures, and behaviors in an organizational context that direct employee ethical actions and decisions (Agarwal and Malloy, 1999; Wyld and Jones, 1997; Key, 1999).

Victor and Cullen (1987) developed a two-dimensional typology of organizational ethical climates and theorize that these climates can be placed in "maps" to depict reality in organizational settings. The first dimension is based on Kohlberg's (1984) three levels of moral reasoning. Victor and Cullen (1987) label these: egoism, benevolence, and principle. The focus of egoism is for individuals to maximize positive outcomes for him or herself. Benevolence refers to achieving favorable outcomes for a relevant collective, which extends beyond motivation to maximize self-interest. Distinct from the two teleological centered orientations is the principled view which emphasizes actions reflecting accordance with generalized beliefs or standards. People applying the principled criterion rely on established laws, rules, policies, and procedures when dealing with ethical issues.

The second dimension distinguishes three possible loci of analysis an organization can assume in making ethical decisions. Victor and Cullen (1987) label these three loci: individual, local, and cosmopolitan. The individual locus refers to the self as a basis for ethical reasoning. The local referent is derived from immediate social or work groups, with the most common being the organization (Cullen, Parboteeah, & Victor, 2003). Finally, the cosmopolitan extends to sources of moral reasoning beyond the immediate organization (e.g. the profession). The two dimensions combine in a three by three matrix, resulting in nine cells representing a different theoretical ethical climate type (Victor & Cullen, 1987, 1988).

Subsequent empirical research has demonstrated that not all nine theoretical climates regularly emerge. For example, Victor and Cullen (1988) found that the original nine climates reduced to five. Wimbush, Shepard and Markham (1997) found three, and Fritzschke (2000) found only two. As a result, some researchers have recommended collapsing climate types across loci of analysis (e.g. Agarwal & Malloy, 1999; Deshpande, 1996). For the purposes of this paper, the climate types are collapsed across loci of analysis into three levels of organizational climate (egoism, benevolence, and principle) that correspond with the presence of covenantal relationships as well as develop from the presence of stewardship ideals.

Governance and Ethical Work Climates

Davis and colleagues (1997) suggest situational factors such as management philosophy (involvement oriented/control oriented), organizational culture (individualistic/collectivist), and power distance relationships (low/high) that are likely to develop principal-steward relationships. An organizational
governance structure predicated on such situational factors of stewardship can lead to the fostering and development of ethical work climates.

Ethical work climates are the shared perceptions of customary organizational policies and procedures based on ethical content that determine what constitutes ethical behavior at work (Victor & Cullen, 1998: 101). Individuals’ perceptions of the nature of these climates have shown to affect organizational attitudes and behaviors. Cullen and colleagues (2003) found that egoistic climates were negatively related to organizational commitment, as benevolent and principled climates held positive associations with commitment. Ruppel and Harrington (2000) found the nature of ethical climate to associate with organizational communication and trust. Climates emphasizing individual interests held negative relationships with both communication and trust. Barnett and Vaicys (2000) found in their study of marketers that perceived ethical climate dimensions had a moderating effect on the ethical judgment - behavioral intentions relationship. They found the perception of a benevolent or principled climate reduced the propensity for organizational members to engage in ethically questionable acts, even as the individuals do not perceive the acts as unethical.

The nature of the ethical climate guides the decision making process for individuals in the organizational setting. According to Victor and Cullen (1988), in an organization characterized by an egoistic climate, self-interest is the dominant consideration for reasoning and resolution of ethical problems. Benevolent climates are typified by teleological considerations of the welfare of others. Finally, principled climates engage the application and interpretation of agreed principles of morality in the ethical decision making process.

The delineation of ethical climates parallels the three classifications of personal preferences noted by Ben-Ner and Putterman (1988: 7) as self-regarding, other-regarding, and process regarding.

“self-regarding preferences concern the individual’s own consumption and other outcomes, other regarding preferences concern the consumption and outcomes of others, and process regarding preferences concern the manner in which the individual in questions and others behave, including the ways in which they attain outcomes of interest.”

Based on the research of Barnett and Vaicys (2000), organizations that develop ethical climates may encourage employees to look outside themselves for guidance on whether or not to engage in behaviors that may be morally questionable. As the nature of the climate is able to moderate behavioral intentions, and subsequent behavior, an organizational environment fostering stewardship can drive the perception of this respective work climate.

Egoistic work climates involve the maximization of self interests in decision making processes. Individuals within the organization perceive they are expected to make ethical decisions based on what maximizes their personal interests. “As such, the decision-maker usually seeks the alternative with the consequences that most satisfies his/her needs, ignoring/neglecting the needs or interest of others” (Parboteeah and Cullen, 2003: 140).

Obviously, this conflicts with a stewardship approach to governance, as stewards forgo self-serving behaviors in favor of protecting organizational interests. Such climates may compel employees to perceive greatest benefit, or least ethical repercussions, when a decision outcome favors individual welfare. Mechanisms that promote stewardship are unlikely to foster the perceptions of a climate emphasizing self interest in any decision process. Alternatively, an agency perspective may appropriately lead to the perception of an egoistic climate.

Agency theory describes the relationship in which one party (principal – owner) delegates work to another (agent - manager), who performs that work (Ross, 1973). The model of man fundamental to the theory is that of the rational, self-serving individual who seeks the maximization of his own personal utility (Jensen & Meckling, 1976).
Proposition 1: The existence of agency governance will be positively associated with the existence of egoistic work climates.

Benevolent work climates emphasize the interests of other parties in the decision making process. Block (1993) describes the role of the steward as committed to the welfare of others. Climates emphasizing the welfare of others align with the theoretical underpinnings of stewardship, as to value long-term relationships and overall health of the organization.

Proposition 2: The existence of stewardship governance will be positively associated with the existence of benevolent work climates.

Principled (or deontological) work climates guide individual ethical decision processes through the evaluation of universal principles of right and wrong (Ferrell & Fraedrich, 1997). Actions are deemed ethical as they comply with these universal principles. Deontological work climates accentuate compliance with organizational policies and procedures, professional code, societal regulations, and laws (Barnett & Vaicys, 2000). Such climates are likely to facilitate collective agreement on acceptable organizational behaviors (Barnett & Schubert, 2002). Stewards believe their interests are aligned with that of the organization, and engage in collective behaviors (Davis et al., 1997).

Proposition 3: The existence of stewardship governance will be positively associated with the existence of principled work climates.

Covenantal Relationships

Mutual obligations are the fundamental nature of employment contracts (Rousseau, 1989) that delineate the relationship between employees and employers. Differing from the formal written contract of employment is the psychological contract, described by Robinson and Rousseau (1994) as an individual's belief regarding the terms and conditions of a reciprocal exchange agreement between that person and the employing party. The concept of the psychological contract may be differentiated and categorized as being of a transactional or relational nature (MacNeil, 1985). Transactional contracts are usually short-term and performance related, involving set monetary exchanges. Relational contracts are based on emotional involvement beyond mere financial reward. They tend to be far more long-term and involve significant investment by both the employer and employee.

A covenantal relationship is a more concentrated type of relational contract between and employee and his or her organization (Van Dyne et al., 1994). The relationship is predicated by a joint dedication to the welfare of both parties and perpetuation of organizational values. Covenantal relationships are founded in mutual commitment where behaviors mandatory for preservation of the relationship are not always known in advance (DePree, 1989). Van Dyne, and colleagues (1994) describe this type of relationship as existential, focusing on a state of being and involving intrinsically motivated effort rather than earning. This in turn creates an environment where the employee will feel valued by, and value for the organization (Barnett and Schubert, 2002).

Covenantal relationships are significant in organizational environments, as they have shown impact on organizational behaviors. The perception of covenantal relationships can influence employee performance, such as organizational citizenship behaviors (Graham & Organ, 1993; Van Dyne et al., 1994).

Governance and Covenantal Relationships

As discussed earlier, psychological contracts can be differentiated into two types, transactional and relational contracts. Transactional employment contracts are embedded in economic exchange describing terms of service, compensation, and rights of both parties (Graham & Organ, 1993). The focus of both parties (employer/employee) in transactional relationships is of maximizing self-interest (Barnett & Schubert, 2002).
As noted earlier in the literature, opponents of stewardship theory (agency theorists) are wary of lacking control features and bestowed trust upon employees in this governance ideal (Davis et al., 1997). The separation of ownership and control within the firm causes the interests and objectives of the principal (owner) and the agent (manager) to differ. As long term interests of the principal conflict with short term interests of the agent, divergences may occur. Since the manager is not the owner of the firm, he lacks the disincentive associated with a loss in equity value due to actions not in the best interest of the firm. Principals attempt to limit departure from their interests by offering monetary incentives and by instituting control mechanisms to monitor actions of the agent. More simply put, in many instances the focus of agency theory is reliant upon transactional employment contracts.

**Proposition 4: Agency governance will be negatively associated with the existence of covenantal relationships between employees and employers.**

Relational contracts, on the other hand, are not based solely on economic benefit, but more on long-term maintenance of relationships. A covenantal relationship is a special type of relational contract built on mutual commitment of both the employer and employee and an allegiance to shared values (Graham & Organ, 1993). The bond of this association requires involved parties behave in whatever fashion necessary to uphold values and preserve the long-term health of the relationship (Barnett & Schubert, 2002). According to Donaldson and Dunfee (1994), a founding assumption of stewardship theory is that the steward is driven by an underlying social contract. Stewardship theory defines situations where employees are not motivated by self interest, but by organizationally centered interests. Caldwell, Bischoff, and Karri (2002) note that a duty of the steward is to create covenantal relationships.

The presence of covenantal relationships alleviates these concerns as interests of employee and organization are aligned and a mutual commitment to the proliferation of this relationship guides behaviors. Further, Caldwell and Karri (2005) argue that employing a governance design of stewardship based on covenantal relationships is an effective method for building trust in organizations. Caldwell and Karri (2005) emphasize stewardship as a covenantal approach, focusing on individuals and establishing long term relationships. Much of the same theoretical approach proposed by Caldwell and Karri (2005) is agreed except for the use of terms (stewardship and covenantal relationships) almost interchangeably, this paper asserts that the stewardship model provides the contextual setting for fostering of covenantal relationships.

**Proposition 5: Stewardship governance will be positively associated with the existence of covenantal relationships between employees and employers.**

**Mediating Influence of Ethical Work Climates**

This research posits that stewardship governance can lead to the development of both covenantal relationships and ethical work climates. It has been shown in the literature that a relationship exists between ethical work climates and perceived covenantal relationships. Therefore I propose that ethical work climates may partially mediate the relationship between stewardship and perceptions of covenantal relationships.

As covenants are predicated by mutual value and concern for the involved parties, established workplace values may be an attributing factor to the development of covenantal relationships. Further, as proposed by Barnett and Schubert (2002) the nature of the perceived ethical work climate associates with the presence of covenantal relationships. The varying nature of the ethical work climate (egoistic, benevolent, or principal) affects the development and perception of covenantal relationships between employee and employer. Barnett and Schubert (2002) found evidence in their study of 194 department store employees that there was a negative relationship between egoistic climates and covenantal relationships, and positive relationships between both benevolent and principled climates and covenantal relationships.
Egoistic Work Climates and Covenantal Relationships

Egoistic climates are focused on maximizing ‘self-interest’ without regard to how relevant decisions may affect others. Fundamentally, egoistic climates parallel agency governance in theoretical foundation. Therefore the perceptions of egoistic climates are likely to propagate in governance structures built on agency theory. Further, it is proposed that agency governance will have a negative association with covenantal relationships, mirroring research findings on the relationship of egoistic climates and covenantal relationships (Barnett & Schubert, 2002). The combination of these theoretical and empirical linkages provides for the partial mediation of egoistic work climates.

Proposition 6: Egoistic work climates will partially mediate the relationship between agency governance and covenantal relationships.

Benevolent Work Climates and Covenantal Relationships

In organizations characterized by benevolent climates, consideration of the well being of others dominates employee reasoning (Victor & Cullen, 1988). Alternative to the egoistic climate, individuals immersed in a benevolent climate do not merely seek to maximize self interest; rather they make distinctions between the subject and the object of ethical behavior and consider the consequences of their behavior on the welfare of others. Along the notion of utilitarianism, decisions made should produce net positive results for others.

Barnett and Schubert (2002) draw two consistencies with benevolent ethical climates and covenantal relationships. First, benevolent climates necessitate decision processes beyond the scope of individual interest. Covenantal relationships thrive on mutual sacrifices for long-term interest of the relationship. Second, benevolent climates concentrate attention on others welfare, as covenantal relationships are founded on the commitment to welfare of the involved parties.

Proposition 7: Benevolent work climates will partially mediate the relationship between stewardship governance and covenantal relationships.

Principle Work Climates and Covenantal Relationships

Climates based in the principle criteria embody deontological consideration of laws, rules and principles when considering ethical issues. Absolute adherence to agreed principles of morality characterize these climates. Norms and rules are rooted in strong organizational values, and their respective application and interpretation guide reasoning (Victor & Cullen, 1988).

Principle climates, predicated on shared acceptance and understanding of organizational values, parallel the formation of covenantal relationships. Covenantal relationships foster a key component of mutual commitment, which is also reflected in the ideals of principle climates.

Proposition 8: Principled work climates will partially mediate the relationship between stewardship governance and covenantal relationships.

DISCUSSION AND FUTURE RESEARCH

This research aims to further legitimize the notion of stewardship theory as a governance model. Organizational governance issues persist in the media and academia. As agency theory has dominated governance issues in management theory combined with the perceived lack of ethics in corporate America and public mistrust of companies, stewardship theory is slowly gaining support. Prior theoretical work on stewardship specific to organizational governance has had minimal integration of ethical variables of work climate and covenantal relationships into the theoretical framework, which is the contribution of this paper.

Davis and colleagues (1997) suggest research for both situational and individual factors relating to the choice between agency and stewardship organizational models. The authors suggest that neither model is
optimal for every organization. For individual organizations an interaction effect of situational and individual variables may lead to optimal governance structures (agency or stewardship). Mutual stewardship relationships maximize firm performance, whereas mutual agent relationships minimize potential firm costs. A mismatch between the two elements allows for one of the involved parties to act opportunistically.

A future study should examine individual variables such as personality characteristics that would lead to steward behaviors. Of primary interest in personality would be the traits of conscientiousness and agreeableness. Conscientious individuals are ambitious, practical, persistent, scrupulous, and careful (Costa & McCrae, 1992). Agreeable individuals are altruistic, generous, trustworthy, and cooperative (Costa & McCrae, 1992). In a study of workplace deviance conducted by Colbert, Mount, Harter, Witt, and Barrick (2004) it was found that employees who are conscientious and agreeable were less likely to engage in deviant workplace behaviors.

REFERENCES


The Effects of Intra-Personal and Environmental Factors on Accountability Acceptance and Their Consequences

Jeremy R. Brees  
University of Scranton

Mark J. Martinko  
Florida A&M University

Accountability research suggests that numerous individual difference and contextual factors affect people’s perceptions of accountability demands, while ignoring a more fundamental element embedded in all accountability experiences; whether employees’ accept or reject responsibility for their behavior and outcomes. This article rectifies this omission through the development of the term accountability acceptance. Accountability acceptance is defined as the propensity and degree to which individuals accept or reject responsibility for behavior or outcomes their evaluators hold them accountable for. Accountability acceptance is argued to result from attributional processes.

INTRODUCTION

People vary in their acceptance of responsibility for their actions and outcomes (Cummings & Anton, 1990). The world was left shocked and outraged as Richard Nixon continued to deny responsibility for his involvement in the infamous Watergate scandal, despite mounting evidence of his direct and intentional participation in illegal actions. Even Mark McGwire, a famous homerun hitter in professional baseball, continued to evade personal responsibility for his usage of steroids, despite ample evidence that he did. How can people, despite clear and reasonable evidence of their involvement, refuse to accept responsibility for their behavior and/or outcomes? This paper addresses this intriguing question.

Accountability is one of the most foundational social forces that govern and control organizational, group, and individual behavior (Tetlock, 1992; Frink et al., 2008). Accountability has been described as the adhesive that binds social systems together (Frink & Klimoski, 1998), because if people are not held responsible for their behavior or outcomes, there would not be shared expectations nor a foundation for social order (Tetlock, 1985; Schlenker & Weigold, 1989). Researchers have studied accountability experiences through such characteristics as its source (Mero, Guidice, & Brownlee, 2007; Tetlock, 1999), focus (Lerner & Tetlock, 1999; Siegel-Jacobs & Yates, 1996), salience (Sandfort, 1999; Staw & Boettger, 1990), and intensity (Hall, Perryman, Zinko, & Ferris, 2009; Hochwarter, Ferris, Gavin, Perrewe, Hall, & Frink, 2007) and on human aspects such as cognition (Klimoski & Inks, 1990; Lerner & Tetlock, 1999; Tetlock, 1999; Schlenker, Britt, Pennington, Murphy, & Doherty, 1994), behavior (Tetlock, 1985, 1999), decision making (Mero & Motowidlo, 1995), and outcomes (Hall, Royle, Brymer, Perrewe, Ferris, & Hochwarter, 2006; Hall et al., 2007).
Despite this proliferation of research on the attributes and outcomes of accountability, an important gap in the literature still remains. Individuals’ degree of “felt responsibility” in accountability contexts has only briefly been discussed in the literature (see Cummings & Anton, 1990; 265) without any sound theoretical reasons as to why individuals respond the way they do. While there has been immense conjecture as to why individuals avoid accountability experiences (for examples review Wohl, Pritchard, & Kelly, 2002; Tetlock, 1985; Wood & Quinn, 2003; Abrams, Rutland, Cameron, & Ferrell, 2007), the more important question remains of why do people accept or reject responsibility for these experiences all together.

The purposes of this paper are to introduce and develop the concept of accountability acceptance and extend a model in which intra-personal and environmental antecedents contribute to an individual’s degree of accountability acceptance and inform important work outcomes from it. In the sections that follow, we define accountability acceptance and briefly review the accountability literature as it informs the context in which accountability acceptance occurs. This is followed by a discussion of how attribution theory may inform our understanding of accountability acceptance. We then develop our model with related propositions, which discusses how several key intra-personal and environmental factors may contribute to an individual’s accountability acceptance followed by several important work outcomes that result from it. Finally, implications and future research directions are discussed.

Accountability

Accountability is defined as an expectation that a focal entity’s decisions, actions, or outcomes will be subject to evaluation by some salient audience(s) with the belief that either rewards or sanctions are based on this evaluation (Hall et al., 2003), or more simply stated, the experience of being held responsible (Hochwarter et al., 2007). An accountability episode is simply an evaluator assessing the degree of personal responsibility of a target individual for an action, behavior, or outcome. Personal accountability experiences are influenced through both environmental aspects (e.g., job design and formal policies and practices) and intra-personal characteristics (e.g., personal difference variables or dispositions of the actors) (Frink et al., 2008). According to Tetlock’s (1985, 1999) social judgment and choice model, individuals subjectively interpret accountability conditions, which result in their response strategy. Despite over 30 years of theoretical development in the accountability literature, there has yet to be discussion on the degree to which individuals accept or reject responsibility for workplace accountabilities or the underlying factors causing it.

“Organizations cannot effectively operate unless employees feel accountable to the organization or to some other entity” (Royle, Hall, Hochwarter, Perrew, & Ferris, 2005, p. 54). In other words, if employees do not accept or feel responsible for their work related actions or outcomes, a malfunctioning and/or ineffective relationship exists between employee and organization. For example, within an accountability episode (e.g., a performance evaluation), the target individual (e.g., subordinate) being held accountable should ideally feel and exhibit a degree of ownership and association with the behavior and/or outcome (e.g., subordinate’s performance) that is being evaluated by their evaluator (e.g., supervisor) in order for the accountability experience to serve a function (e.g., guide/direct expectancies for future behavioral expectations). Felt responsibility is a result of subjective evaluations and individual perceptions, therefore there will naturally be inconsistencies between individuals in similar accountability situations (Cummings & Anton, 1990; Weiner, 1995). Accountability acceptance has critical implications to the phenomenological perceptions of accountability demands in the workplace (Hochwarter et al., 2007), such that it likely predicts the degree to which accountability pressures influence current and future behavior.

Accountability has been associated with both positive and negative attitudinal and behavioral outcomes (Frink et al., 2008), and these inconsistencies suggest potential for moderator variables to shape these relationships. Accountability acceptance is defined as the propensity and degree to which target individuals accept or reject responsibility for behavior and outcomes that evaluators hold them accountable for. High accountability acceptance refers to people’s tendency to accept responsibility, and thus ownership, for their actions/outcomes whereas low accountability acceptance refers to their tendency
to not accept responsibility for actions/outcomes. Accountability acceptance typically occurs within accountability episodes.

The judgment of responsibility by an evaluator refers to “the responsibility inference process,” which is presumed initially to focus on causal understanding of action or outcome and then shifts to a consideration of the person (Weiner, 1995). It is further argued, “that causal beliefs give rise to inferences about personal responsibility, then these thoughts and feelings direct social behavior toward others” (Weiner, 1995, p. 3). Therefore, we contend that within the anatomy of responsibility are attributions of causality that drive individual assessments of responsibility, and thus accountability acceptance levels.

Prior research has revealed that people who accept responsibility for their outcomes are perceived as more honest and trustworthy (Weiner, 1995), having high moral character (Blumstein et al., 1974), evaluated as more credible, likeable, dedicated, competent (Dunn & Cody, 2000) and given more sympathy and forgiveness (Weiner, Figueroa-Munoz, & Kakihara, 1991). On the other hand, people who do not accept responsibility for their outcomes through tactics like excuse giving, denial, or justifications are perceived as less honest and trustworthy (Weiner, 1995), less credible, likeable, dedicated, competent (Dunn & Cody, 2000), and given less sympathy and forgiveness (Weiner, Figueroa-Munoz, & Kakihara, 1991). These research findings illustrate that people who “own up” to accountabilities directly influence evaluations of favorably and competence by others and thus influence future outcomes.

Furthermore, we argue that the propensity of individuals to believe they were not the cause of their behavior or outcomes will predict their tendency to reject responsibility (i.e., low accountability acceptance). Conversely, the propensity of individuals to believe they were the cause of their behavior or outcomes will predict their tendency to accept responsibility (i.e., high accountability acceptance). These conclusions align with prior arguments that attributions serve the purpose of self-presentation (Brewin & Antaki, 1987) and are used to identify responsibility for events (Lord & Smith, 1983). A more detailed discussion of these points will be provided within the model and proposition development section.

**Attribution Theory**

Heider (1958) espoused that people are naïve psychologists attempting to understand the causes of outcomes for both themselves and others. He believed the causal attributions for events influence how individuals view the world and these assigned causes predict future behavior through expectancies (Martinko, Douglas, and Harvey, 2006). Weiner (1972; 1985) later proposed the model of achievement motivation, which adds value through its predictions of how specific individual causal attributions influence subsequent expectancies, affect, and behavior. According to Weiner’s (1985) model, attributions vary along the dimensions of locus of causality, stability, and controllability. Locus of causality refers to an individual’s beliefs in whether the cause of an event resides within (i.e., internal) or outside (i.e., external) of themselves, stability designates whether the cause is consistent across time, and controllability assesses whether the cause was personally controllable or not. The dimension of stability informs and shapes expectancy beliefs, whereas controllability helps assign individual responsibility. Controllable outcomes often result in assigned personal responsibility while uncontrollable outcomes do not (Weiner, 1995).

Attribution theorists argue that the underlying causal mechanisms individuals assign to events influence their responses to them (Campbell & Martinko, 1998; Martinko, 1995; Salancik & Meindl, 1984). Additionally, “while one is judged on responsibility, one acts on felt responsibility” (Cummings & Anton, 1990, p. 266). Therefore, we contend that attributional beliefs inform how target individuals, and their evaluators, assign cause, and thus responsibility, within accountability experiences.

**MODEL DEVELOPMENT AND PROPOSITIONS**

By integrating attribution theory and accountability experiences, we developed the accountability acceptance model (Figure 1). This model enables us to demonstrate that individuals can, and often do, reject responsibility for their behavior and/or outcomes within the workplace. Development and
postulation of important antecedents to and outcomes from accountability acceptance are discussed with accompanying propositions.

**FIGURE 1**
THE ACCOUNTABILITY ACCEPTANCE MODEL

A discussion of the model and related propositions are found in three sections. In the first and second sections, we propose key intra-personal and environmental antecedents that may influence the degree to which individuals accept responsibility for behavior and outcomes. These intra-individual and environmental factors were chosen specifically based to their potential strength to produce either internal versus external attributions of outcomes. In the third section, several important work outcomes are discussed with respect to their relationship with either acceptance or rejection of responsibility. These outcomes were chosen because they are likely to be associated with perceptions of social rule breaking within accountability experiences. An important assumption within the model and propositions is that evaluators are primarily assigning responsibility to individuals (i.e., internal causes) versus contextual or environmental factors (i.e., external causes).

**Intra-Individual Factors**

Individual difference variables have been strongly associated with perceptions of accountability experiences (Tetlock, 2000; Tetlock, 1985; Schlenker et al., 1994; Schlenker & Weigold, 1989). Fiske (1995) argues that the manner in which individuals make sense of their environment is more predictive of their behavior than the actual environment itself. In this section, we argue that each of the following intra-individual factors is an important antecedent to accountability acceptance due to their effects on target individuals’ attributions for success and failure. More specifically, people’s attributions that are biased toward assignment of internal causality will more often result in higher accountability acceptance due to beliefs of internal causes of their behavior and outcomes. Conversely, people’s attributions that are biased toward assignment of external causality will more often result in lower accountability acceptance due to beliefs of outcomes due to external causes outside of themselves.

**Attribution Styles**

Attribution styles, by definition, will influence the attributions individuals make for personal success and failure outcomes (Martinko, Harvey, & Douglas, 2007), and are likely used to explain accountability experiences (Frink et al., 2008; Dubnick, 2003). Attribution style is the tendency for individuals to make
attributions that are consistent across time and situations (Kent & Martinko, 1995; Russell, 1991). The most researched types are the optimistic and pessimistic styles (Seligman, 1990). Individuals with an optimistic style exhibit the tendency to attribute failures to external and unstable causes while attributing successes to internal and stable causes (Abramson et al., 1978). Individuals exhibiting a pessimistic style have a tendency to attribute internal and stable factors for failure while attributing external and unstable causes for success.

Based on these descriptions, in failure situations we believe individuals exhibiting an optimistic attributional style will be associated with lower accountability acceptance due to their propensity to see failures as due to external causes and thus not of their own volition. Alternatively, in success situations those with an optimistic attributional style will exhibit higher accountability acceptance due to their propensity to see successes as due to internal causes and thus as a result of their own actions and behavior. On the other hand, in failure situations we believe individuals exhibiting a pessimistic attributional style will be associated with higher accountability acceptance due to their tendency to see failures as due to internal causes and thus as a result of their own actions and behavior. Alternatively, in success situations those with a pessimistic attributional style will exhibit lower accountability acceptance due to their tendency to believe successes as due to external causes and thus not of their own actions and behavior.

*Proposition 1a: An optimistic attribution style is associated with lower accountability acceptance in failure situations and higher accountability acceptance in success situations.*

*Proposition 1b: A pessimistic attribution style is associated with higher accountability acceptance in failure situations and lower accountability acceptance in success situations.*

**Self-Efficacy Beliefs**

Self-efficacy beliefs are “the beliefs in one’s capabilities to mobilize the motivations, cognitive resources, and course of action needed to meet given situational demands” (Wood & Bandura, 1989, p. 408). Prior research (Thomas & Mathieu, 1994; Silver, Mitchell, & Gist, 1995) shows that self-efficacy beliefs are closely related to attributions and thus influence the degree to which internal or external causes for performance outcomes are assessed. Specifically, individuals estimate their performance capabilities through personal judgments, which in turn influence future motivation and performance levels. Bandura (1988) argued that self-efficacy beliefs influence causal attributions such that individuals exhibiting high self-efficacy believe failures are more likely due to insufficient expended effort (i.e., internal and controllable causes) whereas low self-efficacy beliefs were attributed to low ability (i.e., internal and uncontrollable causes). Other research supports that low self-efficacy is often associated with internal attributions for failure (Gundlach, Martinko, & Douglas, 2003). In success situations, higher self-efficacy beliefs are associated with prior success outcomes (Bandura, 1988) and thus internal causes, whereas low self-efficacy beliefs are associated with more external explanations provided for successes (Silver et al., 1995).

*Proposition 2a: Higher self-efficacy beliefs are associated with higher accountability acceptance in both success and failure situations.*

*Proposition 2b: Lower self-efficacy beliefs are associated with higher accountability acceptance in failure situations and lower accountability acceptance in success situations.*

**Regulatory Focus**

When people pursue outcomes, they often begin with a motivational orientation (Higgins, 2005), and these orientation influence behavioral responses to successes and failures. Regulatory focus theory (Higgins, 1997, 1998) argues that individuals exhibit a self-regulation process aligned with either a promotion focus (e.g., accomplishments and aspirations) or with a prevention focus (e.g., safety and
responsibility). For example, gaining resources motivates people with a promotion focus, whereas those with a prevention focus are motivated by not losing resources. Regulatory focus suggests that individual differences in motivations found in performance, decision-making, and perceptions of outcomes are embedded in the perspective individuals identify with and interpret the world through (Higgins, 1997).

While no research exists to date linking regulatory focus styles with behavioral reactions to outcomes, prior research have shown that prevention focused individuals tend to avoid punishments, have minimal goals, exhibit short term perspectives, are sensitive to social pressures, are motivated by negative feedback, and seek to maintain the status quo (Higgins, 2000; Van-Dijk & Kluger, 2004). On the other hand, promotion focused individuals tend to actively seek rewards, have maximum goals, exhibit long-term perspectives, are motivated by positive feedback, and are more attuned to developmental feedback (Higgins, 2000; Van-Dijk & Kluger, 2004). Researchers have also argued that dissimilar situations or contexts allow for more or less congruence between the salient –regulation focus and type of salient outcome (Higgins, 1998; Shah, Higgins, & Friedman, 1998; Van-Dijk & Kluger, 2004), with greater congruence yielding greater motivation. In other words, if an individual with promotion focus is faced with an outcome framed from a minimization of losses perspective, less motivation will be exerted in the attainment of that outcome.

Based on these findings, individuals with a greater promotion focus will not likely shy away from ownership to failed pursuits toward resource optimizing outcomes, however, may avoid responsibility for situations associated with loss minimization. Conversely, individuals who exhibit a greater prevention focus will more actively attempt to disassociate themselves from resource optimizing outcomes and accept responsibility for those situations associated with loss minimization.

**Proposition 3a:** Promotion focused individuals are associated with higher accountability acceptance for resource optimizing outcomes and are associated with lower accountability acceptance for loss minimization outcomes.

**Proposition 3b:** Prevention focused individuals are associated with lower accountability acceptance for resource optimizing outcomes and are associated with higher accountability acceptance for loss minimization outcomes.

**Strength of Identity**

“Identity can be viewed as a theory of self that is formed and maintained through actual or imagined interpersonal agreement about what the self is like” (Schlenker & Weigold, 1989, p. 23). According to Schlenker et al., (1994) personal identity images (e.g., actor roles, qualities, convictions, and aspirations) are relevant in accountability experiences in the extent to which identity prescribes appropriate behavior for that individual. Similarly, Tetlock’s (1985) social contingency model argues that individuals are motivated primarily to maintain and protect their social image and identity. Lastly, Schlenker and Weigold (1989, pp. 22-23) state that “identity and accountability are intertwined, and the construction and evaluation of identity takes place in the context of accountability.”

Self-identification is comprised of the process, means, or result of presenting oneself as a specific type of person (Schlenker, 1984, 1985), and even though this process is accomplished privately, it is implemented publicly through self-disclosure, self-presentation, and task performance. When individuals are held responsible for failure outcomes, there are direct negative implications for personal identity, however, if they are not held responsible the implications will likely not “adhere to the self” (Schlenker & Weigold, 1989, p. 23). Therefore, when strongly held identity beliefs are challenged through associations with failure outcomes, avoidance responses will likely be exhibited and external causal factors blamed because the failure directly contradicts strongly held beliefs about oneself. Conversely, when weak identity beliefs are associated with failure outcomes, less identity threat will result and thus more chances internal causal factors will likely be exhibited.
Proposition 4a: Individuals with greater identity attachment to accountability outcomes will be associated with lower accountability acceptance for failures and higher accountability acceptance for successes.

Proposition 4b: Individuals with less identity attachment to accountability outcomes will be associated with higher accountability acceptance for both failures and successes.

Conscientiousness
Conscientiousness is defined as the tendency of an individual toward being dependable, disciplined, purposeful, organized, and achievement-oriented (Perrewe & Spector, 2002). Mount and Barrick (1995) argue there are two primary dimensions of conscientiousness; dependability and achievement. This finding has been strongly supported through numerous studies associating high conscientiousness and work performance (Barrick, Mount, & Judge, 2001). The concept of conscientiousness is associated with how individuals approach work tasks and the degree to which they are personally engaged in and take responsibility for their behavior and outcomes. Based on the degree of engagement and discipline exhibited by prior research of high conscientiousness individuals, we would naturally expect to see a high degree of personal ownership in their performance, behavior, and outcomes (i.e., internal causality), yielding higher accountability acceptance in accountability contexts regardless of failure or success outcomes. Conversely, we would expect low conscientiousness individuals to alternatively show less personal ownership and responsibility for their performance, behavior, and outcomes (i.e., more external causality) in failure situations and claim ownership for successes.

Proposition 5a: Higher conscientiousness individuals will be associated with higher accountability acceptance for both success and failure outcomes.

Proposition 5b: Lower conscientiousness individuals will be associated with lower accountability acceptance for failure outcomes and higher accountability acceptance for success outcomes.

Environmental Factors
Environmental context contributes a great deal of influence on the nature and degree to which accountability experiences are interpreted and responded to (Frink et al., 2008; Dutton & Otensmeyer, 1987). In this section, we argue that each of the following environmental factors is an important antecedent to accountability acceptance due to their effects on target individuals’ attributions for success and failure. More specifically, environmental contexts and factors that provide target individuals more clear and objective information linkages between their specific behaviors and outcomes will facilitate more accurate assessments of internal causation for behavior. Conversely, context and factors that hinder these information linkages will likely impede more internal attributions for behavior.

Difficulty of Task
Task difficulty has been aptly described as a person-task interaction (Campbell, 1988), which considers the skills, knowledge, and capabilities of the individual as well as the actual task. Not surprisingly, more difficult tasks are associated with poorer performance (Huber, 1985). Weiner (1985) argued that in achievement-striving situations, task difficulty is often believed by those evaluated as an external dimension of success or failure. Therefore, the more difficult a task, the more likely the target individual who is to accomplish it will conclude that if failure occurs, it is due to the difficulty of the task (i.e., an external attribution) in order to prevent any loss of self-esteem (Weiner, 1985). However, if a difficult task is combined with a successful outcome, there is a much greater chance an individual will believe success is due to ability or effort exerted (Weiner, 1985) in order to build self-esteem.

Proposition 6: Greater task difficulty will be associated with lower accountability acceptance in failure situations and higher accountability acceptance in success situations.
Role Ambiguity

Role ambiguity refers to a perceived lack of role-related information (Breaugh & Colihan, 1994; Rizzo, House, & Lirtzman, 1970). Role ambiguity frustrates the human need for clarity or structure in the environment (Katz & Kahn, 1978) and negatively impacts an individual’s ability to attain personal and organizational goals (King & King, 1990). Jackson and Schuler (1985) showed that role ambiguity is associated with decreased task feedback, role participation, job satisfaction, and poor performance ratings by evaluators. More importantly, as role ambiguity increases, it is likely that individuals will actively disassociate from work outcomes (Jackson & Schuler, 1985) and their beliefs in their ability to meet any performance expectations associated with them.

Weiner (1985) noted that ambiguous situations or contexts make it more difficult to make accurate attributions because the causes of outcomes become increasingly difficult to identify. As situational ambiguity increases so does complexity. In order to both maintain self-esteem and be seen in a positive light (Weiner, 1985), target individuals will more likely attribute failures to more external factors in their environment when ambiguity is high. Conversely, Martinko (2002) argued that decreased ambiguity facilitates more accurate assessments of behavior through more clear causal reasoning. As ambiguity decreases and a target individual’s behavior and actions are more reliability ascribed to outcomes, more internal attributions will likely be made when a relationship truly exists between target individual and their outcomes.

Proposition 7: Greater role ambiguity will be associated with lower accountability acceptance in failure situations and higher accountability acceptance in success situations.

Subjective vs. Objective Work

Roles and work outcomes that are more specific, measurable, and attainable often motivate individuals to perform better and result in better performance than more general or lack of specified goals (Locke & Latham, 1990). Objective work goals and outcomes yield greater clarity between outcomes and the causal agents of those outcomes. For example, a salesman with a target goal to increase sales by 10% over last year’s sales has a more objective goal and outcome than a salesman who is merely asked to increase sales. Similarly, the extremely subjective nature of a CEO’s work is more distally associated with specific and measurable outcomes.

If performance goals and outcomes are more subjective and less clear, there is much greater room to debate regarding the degree of success or failure in an individual’s actual contributions to that outcome. Alternatively, the more concrete and concise the actual work tasks and goals, the less likely subjective attributional discrepancies will interfere with connecting outcomes and the causes of those outcomes. Therefore, more objective role tasks and work outcomes will increase the chances that internal causal attributions are used for a target individual’s behavior or actions, whereas more subjective role tasks and work outcomes will increase the changes that external causal attributions are made for those outcomes.

Proposition 8: More objective work and outcomes will be associated with higher accountability acceptance for both failures and successes.

Job Description

The official relationship between an employee and their employer is a type of social exchange relationship (Mowday, Porter, & Steers, 1982) and the formal job description often serves the purpose of providing a clear and explicit document that acts as an employment contract between the two parties. The job description enables both the target individual (e.g., subordinate) and evaluator (e.g., supervisor) to explicitly see the nature of the role accountabilities. In theory, the more explicit and clear a job description, the less opportunity for biased causal attributions in assessing performance of that role.

However, research shows that job descriptions are not always provided to employees as the usage of formal job descriptions is predominantly within larger organizations. Some research has shown that the
amount of job description content and characteristics of that content have been associated with the quality of performance evaluation judgments (Smith, Benson, & Hornsby, 1990) and job analysis accuracy (Harvey & Lozada-Larsen, 1988). It has been argued the more explicit and detailed a job description, the less likely attributional errors in causal ascriptions will occur by target individuals. Therefore, the degree to which those held accountable have an available and detailed job description of tasks and responsibilities will increase the chances that internal attributions can be used with certainty rather than external attributions made if a job description did not exist.

Proposition 9: The presence of and more explicit degree of a job description will be associated with higher accountability acceptance for successes and failures.

Degree of Importance

Task importance is defined as the degree of pressure individuals feel to make accurate work judgments in their work roles (Baron, Vandello, & Brunsman, 1996). Task importance is typically derived from personal characteristics (e.g., type A personality), contextual or job type characteristics (e.g., surgeons and law enforcement agencies), and/or the importance of reward or sanctions derived from such tasks (e.g., promotion or termination of employment). Within accountability research, the degree of importance of an outcome is argued to influence the degree to which individuals own up to accounts (Frink et al., 2008).

Greater degrees of task importance have been associated with more harsh performance assessments of failures by evaluators in the workplace (Dossett & Greenberg, 1981). Therefore those evaluated have more motivation to alter audience interpretations of causality as task importance increases. Just as observer attributional biases are pervasive in situations of greater task importance (Martinko, 2002), so too are actor biases (e.g., self-serving, actor-observer, and hedonic relevance biases) likely to attribute personal failures to external causes when task importance and negative consequences are likely (Martinko et al., 2006).

Proposition 10: Greater task importance will be associated with lower accountability acceptance for failure outcomes and higher accountability acceptance for success outcomes.

Accountability Acceptance Outcomes

Just as intra-individual and environmental factors are antecedents to target individual’s accountability acceptance, there are likely important work outcomes that result from it as well. Target individual agreement, and more decisively disagreement, with evaluators who hold reward and sanction power over them will naturally have impacts on work outcomes mediated through perceptions of social rule breaking. Social rules are defined as “shared beliefs about what should or should not be performed in particular settings” (Ramsey, Gallois, & Callan, 1997, p. 189), and should be followed, not violated, if satisfactory behavior and/or performance is to be assessed. Social rules predict and bound individual behavior in organizational settings (Argyle, Furnham, & Graham, 1981). Acceptance of responsibility for what one is held accountable for by one’s superiors is seen as acceptable behavior under the social rules category within organizational contexts. Not accepting responsibility is in violation of social rules. The relationship between degree of accountability acceptance and important work outcomes is largely believed to be a result of the target individual’s level of disagreement (i.e., low accountability acceptance) or agreement (i.e., high accountability acceptance) with evaluators.

Performance Evaluations

Current research argues that accountability likely has positive effects on job performance (e.g., Schlenker et al., 1994; Yarnold, Mueser, & Lyons, 1988). The primary argument for these claims is found through the belief that a certain degree of answerability and responsibility is required to motivate individual performance striving (Lerner & Tetlock, 1999; Ammeter, Douglas, Ferris, & Goka, 2004). At
the core of any accountability experience is the target individual’s expectation that the type of accountability outcome received will be primarily driven by the degree of success in the performance process that caused it (Frink et al., 2008). An important caveat should be stated regarding the true relationship between job performance and accountability acceptance. We not only believe that job performance can be predicted from an individual’s accountability acceptance, but it may also be a predictor of it. However, our present argument is focused on the influence of an individual’s accountability acceptance on job performance evaluations. More specifically, we don’t believe that the degree to which a target individual accepts or rejects responsibility equates to actual “raw” differences in performance, but rather plays an indirect role on performance evaluations through agreement or violation of social rules.

Gallois and Callan (1991) argued that rules are used in making judgments and interpretations of the behavior of others, and Jones and Gallios (1989) showed that knowing and following rules contributes to successful performance. Medcof (1990) argued that behavioral expectations (i.e., social rules) are central to the causal attributions others make for observed behavior and rule breaking (Ramsey et al., 1997). A recent study finds when internal and controllable attributions (i.e., acceptance of responsibility) are used to explain personal failures (as opposed to external attributions), individuals were evaluated more positively (Silvester, Anderson-Gough, Anderson, & Mohamed, 2002). Therefore, when people violate social rules by not accepting responsibility when others believe they are responsible, this avoidance behavior will negatively influence future assessments of performance.

**Proposition 11:** Lower accountability acceptance will be associated with poorer performance assessments indirectly through the performance assessment process.

**Organizational Citizenship Behaviors**

Organizational citizenship behaviors (OCB’s) are defined as “individual behavior that is discretionary, not directly or explicitly recognized by the formal reward system, and that in the aggregate promotes the effective functioning of the organization” (Organ, 1988, p. 4). Prior research supports a positive association between felt accountability and OCB’s (Hochwater, Perrewe, Hall, & Ferris, 2005; Hall, Frink, Ferris, Hochwarter, Kacmar, Bowen, 2003) and pro-social behaviors (Mitchell, Hopper, Daniels, Falvy, & Ferris, 1998).

Prior OCB conceptualizations have cast organization/individual relationships as a form of social exchange (Graham & Organ, 1993; Royle, Hochwarter, & Hall, 2008) such that perceptions of obligatory behaviors are offered due to proper norms of reciprocation (Organ, 1988). Prior theory also argues that individual differences (e.g., accountability acceptance) are particularly useful in predicting the extent to which individuals engage in contextual performance (Motowidlo, Borman, & Schmit, 1997). Therefore, individuals who are more likely to understand and feel bound by social and organizational relationships of mutual obligation will more likely engage in extra-role behaviors designed to facilitate larger organizational goals. In an extension of our prior arguments, we believe that individuals who are more prone to violate social rules for behavior will also be less motivated to engage in helping behaviors outside their own work.

**Proposition 12:** Lower accountability acceptance will be associated with fewer OCB’s.

**Turnover Intent**

Individuals stay in their job if they are satisfied and leave if they aren’t (Mitchell, Holtom, Lee, Sablynski, & Erez, 2001). Employee turnover intentions have long been theoretically associated with job satisfaction beliefs (Porter & Steers, 1973; Hulin, Roznowski, & Hachiya, 1985; Lee & Mitchell, 1994), whereby greater levels of dissatisfaction have been found to influence individuals seeking employment alternatives (Tett & Meyer, 1993). Individuals who are less prone to accept responsibility for behavior and/or outcomes will naturally increase the occurrence of interpersonal conflict and strain, which has
been associated with dissatisfaction (Nathan, Mohrman, Millman, 1991; Ferris, Munyon, Basik, & Buckley, 2008) and therefore increase a target individual’s intentions to leave.

Proposition 13: Lower accountability acceptance will be associated with greater turnover intentions.

DISCUSSION

We have proposed that people vary in accountability acceptance, which is the propensity and degree to which target individuals accept or reject responsibility for behavior/outcomes their evaluators hold them accountable for. We argued that key intra-personal and environmental antecedents contribute to an individual’s accountability acceptance and important work outcomes result from it. While the accountability literature has largely focused its theoretical development efforts on accountability attributes and its effects on human behavior and cognitive processes (Frink et al., 2008), we believe the introduction of accountability acceptance fills an important gap within this literature. More specifically, this paper adds value through the acknowledgement that people have inherent tendencies to accept or reject responsibility for behavior and outcomes within accountability experiences.

Limitations

This paper is not without its limitations. Perhaps the most obvious limitation is the lack of prior theoretical development and empirical evidence that supports accountability acceptance as a real construct. Instead, our primary intention was to simply introduce this concept and conceptualize what personal and environmental factors likely contribute to it and how it influences work outcomes.

Another limitation may be our selection for inclusion of intra-individual and environmental factors that contribute to accountability acceptance. While great time and care were taken in choosing these factors due to their potential influence over causal assessments of behavior and outcomes in the workplace, there may be antecedents that have a stronger influence.

Lastly, we acknowledge and recognize there likely exists plenty of opportunities and reasons for people in a workplace setting to accept responsibility of an outcome despite their true beliefs of the causes for them (i.e., external causes). Several reasons to this to happen are due to specific impression management purposes and those who are more politically skilled may need to pose as an individual to accept responsibility for actions or outcomes.

Future Directions

The opportunities for further exploration of accountability acceptance are almost limitless within the organizational sciences. Besides the obvious next steps of providing a more holistic and deeper theoretical development of the existence of this construct, developing an appropriate measurement instrument would perhaps be the most fruitful.

Since accountability acceptance occurs within accountability experiences, and accountability experiences are influenced by a myriad of intra-individual, environmental, and contextual cues, there is great room for development of those personal and social forces that influence the degree of accountability acceptance. Some useful literatures to consider in this development might be personal defensiveness, cognitive biases, avoidance, narcissism, and entitlement beliefs.

Conclusion

In this paper we introduced the concept of accountability acceptance, which is defined as the propensity and degree to which individuals accept or reject responsibility for behavior/outcomes their evaluators attempt to hold them accountable for. We predicted the intra-personal factors of conscientiousness, attribution style, self-efficacy beliefs, regulatory focus, and strength of identity as well as the environmental factors of job description, difficulty of work, role ambiguity, degree of importance, and degree of objectivity in role would influence an individual’s accountability acceptance. We also
argued that accountability acceptance would influence important work outcomes such as turnover intention, organizational citizenship behaviors, and job performance. We believe this is a good first step in the development of the concept of accountability acceptance.

REFERENCES


Accountability in County Governments: Is Auditor Type Related to Audit Quality?

Corey S. Cagle
University of North Alabama

Annette B. Pridgen
Jackson State University

This study examines governmental audit quality by focusing on differences in the quantity of audit findings reported by public-sector auditors (state audit employees) versus private-sector auditors. Audit reports from 81 Mississippi county governments are examined. Regression results indicate private-sector auditors report significantly fewer audit findings than do public-sector auditors. Results also reveal a significant increase (decrease) in reported audit findings in the fiscal year following a change from a private-sector auditor to a public-sector auditor (public-sector auditor to private-sector auditor). These results have important implications concerning the quality of governmental audits performed by the private sector.

INTRODUCTION

The objectives of the governmental audit process include the expression of an opinion concerning the fair presentation of the governmental unit’s financial statements, an assessment of the adequacy of the government’s internal control over financial reporting, and tests of the government’s compliance with applicable laws and regulations. This process not only allows the citizenry to monitor the performance of elected officials but also provides a mechanism by which those elected officials can improve performance based on the findings from the audit.

A state’s audit agency is responsible for performing annual audits of the state and local government entities. That office also has the authority to contract with qualified public accounting firms to perform those audits. In many states, this results in some audits being performed by public-sector auditors (state audit employees) and other audits being performed by private-sector auditors (certified public accounting firms or sole practitioners). This study contrasts the quality of audits performed by governmental audit agencies with audits performed by private firms.

Governmental audit quality has long been a significant issue in the accounting profession (Deis & Giroux, 1992, Samelson, et. al., 2006). Prior literature suggests that, among private-sector auditors, differences in audit quality may exist between large audit firms and small audit firms (Feltham, et. al., 1991; Lee, et. al., 2003; Mansi, et. al., 2004; Tate, 2007; Kitching, 2009; Lai, 2009; Choi, et. al., 2010). Consequently, many prior studies have measured audit quality on the basis of the size or class of the audit firm and the magnitude of audit fees. Copley and Doucet (1993), however, stated that a lack of suitable audit quality measures has limited the potential empirical investigations of quality related issues.
Governmental audits provide a unique opportunity to evaluate audit quality on the basis of audit findings, a measure that prior literature has addressed only on a limited basis.

In this study, audit quality is assessed on the basis of audit findings. The selection of this audit quality measure is based on the Auditor-Reputation Explanation (DeAngelo, 1981b; Deis and Giroux, 1992) and the Power-Conflict Explanation (Goldman and Barlev, 1974; Deis and Giroux, 1992) and ties closely to the objectives of the governmental audit process.

When auditors of governmental financial statements report few or no audit findings, users of these financial statements should be able to conclude that the governmental entity has complied with all material laws and regulations and that internal controls over financial reporting are adequate. Conversely, reporting few or no audit findings could indicate the auditor’s failure to either discover or report breaches in the client’s accounting system. If financial statement users are unable ascertain the meaning behind an audit report that contains few or no findings, then the audit process will not achieve its objectives, and public trust in the audit profession will suffer as a result. Auditors must perform high-quality audits in accordance with Government Auditing Standards for the audit process to properly achieve its objectives.

This study examines all available county audit reports (81) issued in the State of Mississippi for fiscal year 2007. Poisson regression is used to determine whether the quantity of total audit findings is associated with the type of auditor, while controlling for other variables that influence the complexity of the audit. Results indicate that private-sector auditors issue significantly fewer audit findings than do public-sector auditors. Further analysis reveals that this result is applicable to noncompliance findings and findings considered to be material weaknesses in internal controls. However, no significant difference was found concerning the issuance of internal control findings that were not considered to be material weaknesses. Results also indicate a significant increase in reported audit findings in the fiscal year following a change from a private-sector auditor to a public-sector auditor and a significant decrease in reported audit findings in the fiscal year following a change from a public-sector auditor to a private-sector auditor.

Results from this study imply that the type of auditor plays a role in the number of findings that are reported. While Jakubowski (2008) found no significant difference in the number of material weaknesses reported by private-sector auditors versus public-sector auditors in audits of Michigan county component units, the results of this study provide evidence that significant differences exist regarding material weakness findings reported in Mississippi county audits. Conversely, the results from this study regarding the difference in the number of noncompliance findings are consistent with Jakubowski (2008). Since both studies limit their samples to a specific geographical region, the results may not be generalizable to all local governments. However, the results do have some broad policy implications.

The results from this study have direct implications on the usefulness of governmental audit reports. The policy implication of this study is that it may be necessary for the public sector to establish more comprehensive training programs and more stringent monitoring and enforcement procedures to ensure that audits performed by private-sector auditors are of comparable quality to audits performed by public-sector auditors. It may also be necessary to establish measures that will limit the audit client’s power to influence the audit engagement.

The remainder of this paper is organized as follows: Section 2 discusses the previous literature and the theoretical development of the hypotheses. Section 3 describes the empirical method. Section 4 presents the results. Section 5 summarizes the findings and comments on the study’s implications.

LITERATURE REVIEW AND THEORETICAL DEVELOPMENT OF HYPOTHESES

Government Audit Quality

The U. S. Government Accountability Office (GAO) defines audit quality as compliance with professional standards and contractual terms set out for the particular type of audit being conducted. Generally accepted government auditing standards are issued by the GAO and are to be followed by auditors when required by law, regulation, agreement, contract, or policy. These standards require that
auditors not only report on the fair presentation of financial statements but also report on internal control and on compliance with laws, regulations, and provisions of contracts or grant agreements.

Since the mid-1980s, both the GAO and the American Institute of Certified Public Accountants (AICPA) have cited concerns about the quality of audits of governmental units. In 1986, the GAO examined 120 randomly sampled governmental audits and found that certified public accountants (CPAs) did not satisfactorily comply with auditing standards on 34 percent of the audits they performed, making the audits less useful. More than half of the substandard audits had severe standards violations. The GAO’s report stated the two predominant problems were insufficient audit work in (1) testing compliance with governmental laws and regulations and (2) evaluating internal accounting controls (GAO, 1986).

In 1988, the GAO issued a report documenting the results of an examination of audits performed by CPAs of participants in federal guaranteed and insured loan programs. In that report, the GAO noted audit quality problems similar to those outlined in prior GAO studies. Specifically, seven of the 28 randomly sampled audits did not comply with applicable auditing standards. The standards violations included working papers that did not adequately show that the CPA appropriately tested financial transactions, evaluated internal controls, or tested compliance with laws and regulations (GAO, 1988b).

The GAO reported in 1988 that actions taken by state boards of accountancy and the AICPA had demonstrated a commitment to improving the quality of governmental audits performed by CPAs (GAO, 1988a), and in 1989, the GAO reported that Single Audit quality had improved (GAO, 1989). In 2007, however, the President’s Council on Integrity and Efficiency published a report of its examination of 208 randomly selected audits of entities that expended federal awards of greater than $500,000 in one year. For 208 audits examined, 30 were found to have had significant deficiencies in the performance of the audit and thus were of limited reliability. Sixty-three of the audits were found to be unacceptable and could not be relied upon. The most prevalent deficiencies included not documenting the testing of internal controls and not documenting compliance testing. For 49 of the audits, elements were noted that should have been included as audit findings but were omitted from the audit report (PCIE, 2007). Although some improvement has been realized since the GAO reports were published, the 2007 report indicates that governmental audit quality remains an area of concern in the profession.

Government auditing standards require auditors to report on deficiencies in internal control and compliance with laws and regulations. In the GAO studies previously cited, some CPAs did not report deficiencies in cases where deficiencies should have been reported, and the audits were, therefore, of suboptimal quality. The GAO states that the Congress, government officials, and private citizens have a common interest in ensuring accountability in governments. Governmental audits are designed to provide assurance that these financial statement users have reliable reports on financial activities, compliance with laws and regulations, and the adequacy of internal controls. The GAO cautions that violations of auditing standards cast doubt on the credibility of the audit and can significantly reduce the usefulness of the auditor’s report. Further, the GAO emphasizes that, because of their importance, violations of fieldwork or reporting standards constitute violations of due professional care.

DeAngelo (1981a) describes audit quality as the probability that the auditor will both discover and report a breach in the client’s accounting system. Most definitions of audit quality reflect some aspect of DeAngelo’s definition (Watkins, et. al., 2004). Copley and Doucet (1993) and Watkins et. al. (2004) discuss that the difficulty with this definition of audit quality is that this probability is largely unobservable and, therefore, of limited usefulness in many empirical studies. Prior studies of audit quality in private-sector companies have, therefore, often proxied audit quality with auditor company size, auditor office size, or auditor class (Fetham, et. Al., 1991; Lee, et. al., 2003; Mansi, et. al., 2004; Tate, 2007; Kitching, 2009; Lai, 2009; Choi, et. al., 2010). In the local government audit market, however, Lowensohn et. al. (2007) found that Big-5 auditors are not uniformly associated with increased perceived audit quality.

In a governmental audit setting, the discovery and reporting of a breach is largely evidenced by audit findings contained within the auditor’s report. Studies of governmental audit quality, therefore, offer a unique opportunity to proxy audit quality with the number of audit findings issued in the audit report. One study that used this approach was Jakubowski (2008). In that study, audit findings of 27 Michigan county
component units (mostly road commissions) were examined. One major discovery from that study was that both private-sector and public-sector auditors issue very few audit findings (approximately 0.57 per audit). Jakubowski suggests that while a lack of reported findings should provide reasonable assurance that financial statements are free of material misstatements, that internal controls are effective, and that the entity has complied with applicable regulations, a consistently low frequency of reported findings could also be the result of ineffective audits. The current study addresses that concern and continues the examination of public-sector and private-sector auditors on the basis of audit findings.

**Public-Sector Auditors vs. Private-Sector Auditors**

Given the importance the GAO places on testing for compliance with laws and regulations and evaluating internal control over financial reporting, this study examines the quality of governmental audits being performed more than 20 years after the initial GAO reports. The number of audit findings reported in each governmental audit report in the sample will be used as a proxy for audit quality. A lack of reported audit findings could be indicative of two separate events: (1) The financial statements are free of material misstatements, internal controls over financial reporting are effective, and the entity has complied with applicable laws and regulations, or (2) the auditor did not comply with fieldwork and/or reporting standards and, therefore, did not identify and/or report violations as a result of the audit. This study seeks to provide evidence of the latter by examining two groups of auditors (public-sector auditors and private-sector auditors) that have differing motivations when conducting the audit. Deis and Giroux (1992) suggests two theories to explain variations in these two groups of auditors: auditor-reputation explanation and power-conflict explanation.

**The Auditor-Reputation Explanation**

DeAngelo (1981b) suggests that, faced with competitive pricing pressures, an auditor may choose to lower audit quality and audit price to retain the client. Deis and Giroux (1992) suggests that audit firm size is a moderating effect, since a large client base allows a concern for reputation to remain more important than the retention of any given client. An audit firm that could be damaged more from the loss of reputation than from the loss of a given client will have an incentive to perform a higher quality audit.

Public-sector auditors have little competitive pricing pressure. For example, in Mississippi, audit fees are set by state law. Each state auditor in the United States is either elected by citizens or appointed by state legislature, therefore the state auditor’s reputation is paramount to the effective operation of the agency and vital to the state auditor maintaining his or her position as a public servant. As such, the auditor-reputation explanation implies that since public-sector auditors could be damaged more from the loss of reputation than from the loss of a given client, public-sector auditors will perform higher quality audits than will private-sector auditors. As suggested by the GAO (1986) study and DeAngelo’s (1981a) definition of audit quality, a higher quality audit will both detect and report any instances of noncompliance with laws and regulations and any weaknesses in internal control over financial reporting. As such, it is expected that audits performed by public-sector auditors will report a larger number of total audit findings than will audits performed by private-sector auditors.

**The Power-Conflict Explanation**

The second explanation suggested by Deis and Giroux (1992) is the power-conflict explanation, which centers on the ability of the auditor to resist pressures from the client to violate professional standards. This explanation is especially important, given the context of audit findings and the audit client’s desire to minimize any reported instances. Roberts et al. (1990), for example, provides evidence that auditors may be replaced for reporting information that reflects negatively on the audit client. The auditor’s report serves as financial statement users’ means of evaluating the entity and its managers. Governmental managers are either elected by the citizens or appointed by some governing body or politician and are concerned about being re-elected or maintaining their positions within the government. As such, management is concerned with how audit findings reflect adversely upon the entity and its...
management and has much to gain by influencing the auditor’s report in order to present more favorable results.

As an auditor becomes more concerned with the retention of a client rather than with his or her reputation (the auditor-reputation explanation), that auditor becomes more susceptible to the audit client’s power to influence the audit report (the power-conflict explanation). Goldman and Barlev (1974) developed a behavioral model of auditor independence that illustrates that the auditor’s behavior according to professional standards is a function of his or her ability to withstand pressures from the audit client. The audit client’s power comes from the ability to hire and fire the auditor, the ability to determine the auditor’s fees, and the ability to determine work conditions. Since the audit clients in this study do not possess the ability to hire and fire public-sector auditors or determine the auditor’s fees, the balance of power shifts away from the audit client to the public-sector auditor. The public-sector auditor is, therefore, better able to withstand client pressures than is the private-sector auditor, for whom the audit client does possess the ability to hire and fire and determine the auditor’s fees.

Hypotheses

On the basis of the preceding discussion, the following hypotheses are stated in the alternative form:

\[ H_1: \text{Private-sector auditors will issue fewer total audit findings than will public-sector auditors.} \]

Three different classifications of governmental audit findings include noncompliance findings, significant deficiency findings, and material weakness findings. Figure 1 contains the definition of each type of finding.

### FIGURE 1
**CATEGORIES OF FINDINGS AS DEFINED BY GOVERNMENT AUDITING STANDARDS**

<table>
<thead>
<tr>
<th>Category</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Noncompliance</strong></td>
<td>Instances of noncompliance with certain provisions of laws, regulations, contracts and grant agreements; noncompliance which could have a direct and material effect on the determination of financial statement amounts.</td>
</tr>
<tr>
<td><strong>Significant Deficiency</strong></td>
<td>A control deficiency that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the county's financial statements that is more than inconsequential will not be prevented or detected by the county's internal control.</td>
</tr>
<tr>
<td><strong>Material Weakness</strong></td>
<td>A significant deficiency that results in more than a remote likelihood that a material misstatement of the financials statements will not be prevented or detected by the county's internal control.</td>
</tr>
</tbody>
</table>

Source: Government Auditing Standards 2007 Revision issued by the U. S. Government Accountability Office
Jakubowski (2008) indicates that both public-sector and private-sector auditors issued internal control findings (including significant deficiencies and material weaknesses) with the same degree of frequency (means of 0.32 and 0.36, respectively). Public-sector auditors, however, were found to have issued, on average, significantly more noncompliance findings than did private-sector auditors (means of 0.48 and 0.06, respectively). The author suggests that the difference may be attributable to the fact that public-sector auditors are not organized to earn a profit, as are private-sector auditors, and they may be willing to spend more time gathering evidence. In this study, in addition to examining the total number of audit findings, further analysis is performed to determine whether differences exist regarding the type of audit finding reported by public-sector auditors versus private-sector auditors.

In addition to evaluating data on audit findings for a single year, the current study also examines the changes (if any) in the number of audit findings issued in the fiscal year following a switch by the audit client from a public-sector auditor to a private-sector auditor or vice-versa. While prior studies, such as Tate (2007), have found that changes in operational structure, management’s reputation, and audit fees are significant in determining whether an organization will choose to change auditors, entities in the current study were not given the choice in determining the type of auditor. Instead, the Office of the State Auditor chooses which entities its office will audit and which entities it will contract out to private-sector firms. In this study, these instances of auditor switching are used not for determining what led to the change in auditors, but whether differences occurred regarding the number of findings issued after the change. Based on the preceding discussions, the following hypothesis is stated in the alternative form:

\[ H_{2a}: \text{When an audit client changes from a private-sector auditor to a public-sector auditor, the total number of audit findings will increase in the year following the auditor change.} \]

\[ H_{2b}: \text{When an audit client changes from a public-sector auditor to a private-sector auditor, the total number of audit findings will decrease in the year following the auditor change.} \]

**EMPIRICAL METHOD**

**Empirical Model**

The purpose of this study is to examine whether differences exist in the number of audit findings issued by private-sector auditors when compared with the number of audit findings issued by public-sector auditors. The following model was developed to provide evidence regarding differences in audit findings while controlling for other factors that may account for differences in the number of findings issued by an auditor:

\[
TOTALFINDINGS = \beta_0 + \beta_1AUDITORTYPE + \beta_2\lnPOPULATION + \beta_3DELAY + \beta_4SINGLEAUDIT + \epsilon
\]

Where:

- \( TOTALFINDINGS \) = the total number of findings the auditor issued in the fiscal year 2007 audit.
- \( AUDITORTYPE \) = a dummy variable where 1 indicates the auditor is a private-sector auditor and 0 indicates the auditor is a public-sector auditor.
- \( \lnPOPULATION \) = the natural log of population
- \( DELAY \) = the number of calendar days between the fiscal year end and the date of the audit report.
- \( SINGLEAUDIT \) = a dummy variable where 1 indicates that the auditor performed a Single Audit, 0 otherwise.
The dependent variable, TOTAL FINDINGS, is a count variable representing the total number of findings issued in the fiscal year 2007 audit report. A count variable takes on a discrete value of zero or any positive integer. Using a count variable as the dependent variable in ordinary least squares (OLS) regression may produce biased standard errors and significance tests if the mean of the count variable is relatively low—fewer than 10, as a rule of thumb (Coxe, et. al., 2009). Count variables often violate the OLS assumptions of constant variance and normality. As an alternative, Poisson regression is the appropriate model to test the hypothesis that the total number of audit findings differs according to the type of auditor. Poisson regression allows transformations of the predicted outcome, which can linearize a potentially nonlinear relationship between the dependent variable and the predictors. Also, Poisson regression allows for a non-normal error structure, specifically the Poisson distribution, which is used to represent the distribution of the errors.

The independent variable, AUDITORTYPE, is a dummy variable where 1 indicates the auditor is a private-sector auditor and 0 indicates the auditor is a public-sector auditor. AUDITORTYPE is the variable of interest in the model. Each of the other independent variables is used to control for differences in audit complexity. The professional standards state that more diverse and complex client operations will lead to a greater likelihood of material errors (Bryan, 1996) and potentially to a greater number of audit findings. Each control variable has been found in prior studies to have a potentially significant effect on audit quality or audit fees and, in some cases, has been found to differ between private-sector auditors and public-sector auditors.

The control variable, lnPOPULATION, which is the natural log of the population of each county, has been suggested in a number of public-sector studies (Wallace, 1986; Baber, et. al., 1987; Evans & Patton, 1987; Rubin, 1988; Roberts, et. al., 1990; Rubin, 1992; Deis & Giroux, 1992; Beattie, et. al., 2001) as a proxy for organizational complexity. Prior studies have shown that audit client size can have an important effect on the audit process. Johnsen et al. (2004) suggests that the audit tasks and the technology that the auditors apply may be subject to certain auditee characteristics such as size. Deis & Giroux (1992) and O’Keefe & Westort (1992) each found that larger clients are apt to receive lower quality audits, and O’Keefe et al. (1994) found that client size is positively and significantly associated with violations of generally accepted auditing standards on governmental engagements. As such, it is predicted that population will be negatively associated with the total number of reported audit findings. Prior studies indicate the existence of a nonlinear relation between audit quality measures and auditee size, thus providing justification for a logarithmic transformation of county population in this study.

The control variable, DELAY, which is the number of calendar days between the fiscal year end and the date of the audit report, is included to capture any differences in the number of audit findings that may result from time pressures and delays. Prior studies have found a positive correlation between audit delay and audit fees (Chan, et. al., 1993; Ezzamel, et. al., 1996), and O’Keefe, et. al. (1994) found that violations of audit standards decrease as audit fees increase. Deis & Giroux (1992) found that more timely audits are of higher quality. Rubin (1992), however, found that timeliness was better for private-sector audit firms, which in the context of this study, are expected to be associated with lower quality audits. In this study, no directional prediction is made regarding the association of audit delay with the total number of reported audit findings.

The control variable, SINGLEAUDIT, is included because audit clients subject to the Single Audit Act have received substantial federal funding and are thus subject to additional audit procedures regarding the use of those funds. These additional procedures could lead to an increase in the total number of audit findings reported. Brannan (1993), however, found that auditors believe that the Single Audit Act improved recipient compliance with applicable federal rules and regulations, which could lead to a decrease in the total number of reported audit findings. Regarding public-sector versus private-sector auditors, Jakubowski (1995) found that state auditors conducting Single Audits reported more internal control weaknesses than did private-sector auditors. In this study, no directional prediction is made regarding the association of a Single Audit with the total number of reported audit findings.
Sample and Data Collection

Differences between private-sector and public-sector auditors were tested using 2007 audit reports for Mississippi counties. The year 2007 was chosen because it was the most recent year, at the time of data collection, in which substantially all county audits in Mississippi were completed. Of the 82 counties in Mississippi, one was excluded from the sample, leaving a total of 81 counties in the final sample. Greene County was excluded from the sample because the audit of its financial statements had not been completed as of the date of data collection. The final sample includes 55 counties audited by private-sector audit firms and 26 counties audited by the Mississippi Office of the State Auditor.

County audit reports are published on the Mississippi Office of the State Auditor’s website (http://www.osa.state.ms.us). The total number of audit findings was obtained from each county’s fiscal year 2007 audit report. Information concerning the type of audit finding (noncompliance, significant deficiency, and material weakness) was also obtained from each county’s audit report. Audit delay was calculated as the number of calendar days that lapsed between the financial statement date (September 30, 2007) and the date the county’s audit report was issued. County population data were gathered from the U.S. Census Bureau’s website (www.census.gov). Single Audit information was obtained from each county’s audit report.

Table 1 presents descriptive statistics for each variable in the model along with descriptive information about the specific types of findings (NONCOMPLIANCE, SIGNIFICANTDEFICIENCY, MATERIALWEAKNESS). Panel A includes all 81 counties in the sample. Panels B and C present descriptive information separately for private-sector and public-sector auditors, respectively.

A t-test was performed for each variable to assess any differences that exist between audits performed by private-sector auditors versus public-sector auditors. Results of these univariate tests reveal that significant differences exist between private-sector and public-sector auditors regarding total audit findings, noncompliance findings, material weakness findings, and population. No significant differences were found regarding significant deficiency findings, audit delay, or the presence of a Single Audit.

The mean number of total findings for all counties is 7.81, with some counties receiving zero findings and others receiving as many as 30 findings. Private-sector auditors issued an average of 6.51 total findings per audit, while the public-sector auditors issued an average of 10.58 total findings per audit. The majority of the findings issued were noncompliance findings, with a mean of 4.51 findings per audit. Private-sector auditors issued an average of 3.67 noncompliance findings per audit, while public-sector auditors issued an average of 6.27 noncompliance findings per audit. Financial statement findings not considered to be material weaknesses (i.e. significant deficiencies) were issued at an average of 1.20 findings per audit, with private-sector and public-sector auditors issuing an average of 1.20 and 1.19 per audit, respectively. Financial statement findings considered to be material weaknesses were issued at a rate of 2.16 per audit. Private-sector auditors issued an average of 1.71 material weakness findings per audit, while public-sector auditors issued an average of 3.12 material weakness findings per audit.

Counties audited by private-sector auditors were larger than those audited by public-sector auditors. Mean (median) population for private-sector clients was 43,853 (29,248), while mean (median) population for public-sector auditor clients was 20,221 (19,219). The difference in the mean and median populations for private-sector clients and standard deviation of 47,618 indicates that the population is skewed by a small number of large counties.
The results of the Poisson regression are shown in Table 2. Multicollinearity was assessed by examining the correlation matrix, tolerance, and variance inflation factors (VIF). Results indicated that no significant multicollinearity exists among the independent variables. The Poisson regression model predicting total number of audit findings for the entire sample of 81 counties was significant with a likelihood ratio chi-square = 87.850, df=4, p<0.001. The explanatory variable, AUDITORTYPE, was
statistically significant (p<0.001). Private-sector auditors had an expected log count 0.332 less than public-sector auditors, which amounts to about 2.57 fewer findings per audit than public-sector auditors while holding other variables constant. This result supports H1, which states that private-sector auditors will issue fewer total audit findings than will public-sector auditors.

An overdispersion scaling parameter of 4.652 was computed, suggesting overdispersion (the conditional variance of the residuals is larger than the conditional mean) in the data. If overdispersion is not accounted for, estimates of the standard errors will be too small, test statistics for the parameter estimates will be too large, and significance will be overestimated (Coxe, et. al., 2009). To account for this, an overdispersed Poisson regression model was computed, which included the inverse of the overdispersion scaling parameter. As a result, the parameter estimates are unchanged from the Poisson model, but the statistical tests are more conservative. Results of the overdispersion Poisson model are similar to those of the Poisson model (AUDITORTYPE p-value = 0.04). The model was also refit using a negative binomial distribution, but the model fit statistics were not an improvement over the original Poisson model.

**TABLE 2**

**POISSON REGRESSION RESULTS FOR A MODEL OF TOTAL AUDIT FINDINGS FOR A SAMPLE OF 81 MISSISSIPPI COUNTIES FOR FISCAL YEAR 2007**

The model is expressed as:

\[
\text{TOTALFINDINGS} = \beta_0 + \beta_1 \text{AUDITORTYPE} + \beta_2 \ln\text{POPULATION} + \beta_3 \text{DELAY} + \beta_4 \text{SINGLEAUDIT} + \varepsilon
\]

<table>
<thead>
<tr>
<th>Predicted Parameter Estimate</th>
<th>Sign</th>
<th>(Standard Error)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td></td>
<td>2.101***</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.5470)</td>
</tr>
<tr>
<td>AUDITORTYPE</td>
<td>-</td>
<td>-0.332***</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.0868)</td>
</tr>
<tr>
<td>lnPOPULATION</td>
<td>-</td>
<td>-0.071</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.0534)</td>
</tr>
<tr>
<td>DELAY</td>
<td>?</td>
<td>0.002***</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.0003)</td>
</tr>
<tr>
<td>SINGLEAUDIT</td>
<td>?</td>
<td>0.041</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.0895)</td>
</tr>
<tr>
<td>Likelihood Ratio Chi-Square</td>
<td></td>
<td>87.850***</td>
</tr>
<tr>
<td>Pseudo R-squared</td>
<td></td>
<td>0.2064</td>
</tr>
</tbody>
</table>

*** Indicates significance at p<0.001

See Tables 1 and 2 for variable definitions.

The control variable, DELAY, was also found to be significant (p<0.001). Audit findings were found to occur at a greater rate as the time required to complete the audit increased. Further analysis revealed
that this occurred with both private-sector and public-sector auditors, although it is not clear whether a delay in the audit leads to the discovery of a greater number of audit findings or whether a greater number of audit findings leads to a delay in the audit. The control variables, lnPOPULATION and SINGLEAUDIT were not statistically significant. Separate regressions were performed after replacing lnPOPULATION with total county revenues and then with total county expenditures. Results (not tabulated) were similar regardless of which control variable was used.

Closer examination of the data revealed that the top 11 most populated counties in Mississippi were audited by private-sector firms. As a sensitivity check, an analysis was conducted after removing these 11 counties from the sample. In the reduced sample, the mean population is 20,221 and 24,675 for public-sector and private-sector auditors, respectively. The results of the Poisson regression (not tabulated) reveal similar results when compared with the analysis of the full sample. The public-sector auditors’ propensity to choose less populous audit clients, therefore, does not appear to influence the differences in reported audit findings.

Further investigation indicated that none of the counties in the extreme northern portion of the state was audited by the state auditor. To control for this, a separate Poisson regression was performed on a sample reduced by the six counties on the northern border of the state (all of which were audited by private-sector auditors). The results of the Poisson regression (not tabulated) reveal similar results when compared with the analysis of the full sample. The geographical location of audit clients does not appear to influence the differences in observed audit findings.

Table 3 presents results for three separate Poisson regression models, each using a dependent variable related to the total number of each of three different types of audit findings. These tests were performed to assess whether differences exist in the total number of each specific type of audit finding reported by private-sector auditors versus public-sector auditors. The first column presents regression results for the total number of noncompliance findings. The explanatory variable, AUDITORTYPE, was statistically significant (p<0.001; In the overdispersed Poisson regression model, p=0.04). Private-sector auditors had an expected log count 0.427 less than public-sector auditors, which amounts to about 1.86 fewer noncompliance findings than public-sector auditors while holding other variables constant. This result is consistent with Jakubowski (2008).

The third column of Table 3 presents regression results for the total number of material weakness findings. While Jakubowski (2008) did not find a significant relationship concerning material weaknesses between auditor type, the results of this regression reveal that the explanatory variable, AUDITORTYPE, was statistically significant (p=0.003; In the overdispersed Poisson regression model, p=0.01). Private-sector auditors had an expected log count 0.495 less than public-sector auditors, which amounts to about 1.10 fewer material weakness findings than public-sector auditors while holding other variables constant. The second column of Table 4 presents regression results for the total number of significant deficiency findings. The explanatory variable, AUDITORTYPE, was not statistically significant.

H2a and H2b test whether differences exist regarding the change in the total number of findings in the fiscal year following an audit client’s switch in auditor type. Data were gathered for all counties that changed auditor type over the five-year period from 2003 to 2007. Two groups were established: (1) counties changing from a private-sector auditor to a public-sector auditor (19 observations), and (2) counties changing from a public-sector auditor to a private-sector auditor (21 observations). For each group, the mean total number of findings was observed in the year before the auditor change and in the year after the auditor change. Paired-sample t-tests were performed for each group. Results are presented in Table 4.
TABLE 3
POISSON REGRESSION RESULTS FOR A MODEL OF (A) NONCOMPLIANCE FINDINGS, (B) SIGNIFICANT DEFICIENCY FINDINGS, AND (C) MATERIAL WEAKNESS FINDINGS FOR A SAMPLE OF 81 MISSISSIPPI COUNTIES FOR FISCAL YEAR 2007

The models are expressed as:
(a) NONCOMPLIANCE = β₀ + β₁AUDITORTYPE + β₂lnPOPULATION + B₃DELAY + B₄SINGLEAUDIT + ε
(b) SIGNIFICANTDEFICIENCY = β₀ + β₁AUDITORTYPE + β₂lnPOPULATION + B₃DELAY + B₄SINGLEAUDIT + ε
(c) MATERIALWEAKNESS = β₀ + β₁AUDITORTYPE + β₂lnPOPULATION + B₃DELAY + B₄SINGLEAUDIT + ε

<table>
<thead>
<tr>
<th>DV = NONCOMPLIANCE</th>
<th>DV = SIGNIFICANT DEFICIENCY</th>
<th>DV = MATERIAL WEAKNESS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coefficient (SE)</td>
<td>Coefficient (SE)</td>
<td>Coefficient (SE)</td>
</tr>
<tr>
<td>Intercept</td>
<td>-0.358 (0.7031)</td>
<td>5.076*** (1.3133)</td>
</tr>
<tr>
<td>AUDITORTYPE</td>
<td>-0.427*** (0.1153)</td>
<td>0.243 (0.2307)</td>
</tr>
<tr>
<td>lnPOPULATION</td>
<td>0.071 (0.0691)</td>
<td>-0.490*** (0.2307)</td>
</tr>
<tr>
<td>DELAY</td>
<td>0.003*** (0.0004)</td>
<td>0.000 (0.0008)</td>
</tr>
<tr>
<td>SINGLEAUDIT</td>
<td>-0.114 (0.1161)</td>
<td>0.616* (0.2501)</td>
</tr>
<tr>
<td>Likelihood Ratio</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chi-Square</td>
<td>16.905**</td>
<td>20.854***</td>
</tr>
<tr>
<td>Pseudo R-squared</td>
<td>0.2475</td>
<td>0.0873</td>
</tr>
</tbody>
</table>

***, **, * Indicates significance at p<0.001, p<0.01, p<0.05, respectively.
See Tables 1 and 2 for variable definitions.
TABLE 4
RESULTS OF PAIRED-SAMPLE T-TESTS COMPARING THE TOTAL NUMBER OF AUDIT FINDINGS IN THE FISCAL YEAR PRECEDING AN AUDITOR CHANGE TO THE TOTAL NUMBER OF AUDIT FINDINGS IN THE FISCAL YEAR FOLLOWING THE AUDITOR CHANGE

<table>
<thead>
<tr>
<th></th>
<th>Private-Sector to Public-Sector Auditor (n=19)</th>
<th>Public-Sector to Private-Sector Auditor (n=21)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean Number of Findings in Year Preceding the Change</td>
<td>2.84</td>
<td>7.81</td>
</tr>
<tr>
<td>Mean Number of Findings in Year Following the Change</td>
<td>10.53</td>
<td>5.05</td>
</tr>
<tr>
<td>Mean Difference (Standard Error)</td>
<td>7.69*** (1.688)</td>
<td>-2.76* (1.460)</td>
</tr>
</tbody>
</table>

***, * Indicates significance at p<0.001 and p<0.05, respectively.

Results of the paired sample t-test indicate a significant increase (t=4.553, df=18, p<0.001) in the total number of findings in the first fiscal year following a client changing from a private-sector auditor to a public-sector auditor (a mean increase of 7.69 findings). This result supports H2a, which states that when an audit client changes from a private-sector auditor to a public-sector auditor, the total number of audit findings will increase in the year following the auditor change. H2b states that when an audit client changes from a public-sector auditor to a private-sector auditor, the total number of audit findings will decrease in the year following the auditor change. A mean decrease of 2.76 findings was observed. Results of the paired sample t-test indicate this is a significant decrease (t=1.891, df=20, p=0.037). This result supports H2b.

SUMMARY AND CONCLUSION

In this study, evidence is presented that significant differences exist in the number of audit findings issued by public-sector and private-sector auditors on governmental audit engagements. These observed differences have important implications on the quality of the audits being performed by the private-sector. The results of this study provide evidence that will be useful to auditors, managers, and citizens, as all of these groups are affected by issues of audit quality. This study also provides evidence that audit findings, or lack thereof, may provide some indication of audit quality. The policy implication of this study is that it may be necessary for the public sector to establish more comprehensive training programs and more stringent monitoring and enforcement procedures to ensure that audits performed by private-sector auditors are of comparable quality to audits performed by public-sector auditors.

Prior literature has suggested that differences in the behaviors of public-sector auditors versus private-sector auditors may be explained by the auditor’s concern for his or her reputation rather than for retaining a certain audit client by not strictly adhering to audit standards (DeAngelo, 1981b). Since public-sector auditors have little competitive pricing pressures and could sustain more damage from the loss of reputation, they are more likely to report audit findings than private-sector auditors, who may be more interested in retaining a significant audit client. A second explanation, which complements the auditor-reputation explanation, is that private-sector auditors are more susceptible to client pressures to
violate standards, while public-sector auditors are better able to withstand these pressures (Goldman and Barlev, 1974).

Based on a sample of audits of 81 counties in Mississippi for the year 2007, Poisson regression results show that private-sector auditors are significantly less likely to issue audit findings for governmental entities than are public-sector auditors. This applies to both noncompliance findings and material weakness findings. Also, for the period from 2003 to 2007, audit clients changing from public-sector auditors to private-sector auditors experienced a mean decrease in the number of findings received in the first year following the change. In contrast, audit clients changing from private-sector auditors to public-sector auditors experienced a mean increase in the total number of audit findings received in the first year following the change.

One limitation of this study is the fact that data were gathered only for county audits. Results may not be generalizable to other forms of government. Also, data were only gathered from counties in Mississippi, and results may not be generalizable to other geographic areas. While measures were taken to control for factors influencing the public-sector auditors’ choice of audit client, other factors may exist that were not considered. These unobserved factors may influence the results of this study. Future research could be performed regarding other forms of government. Also, while the focus of this study was not on that of the influence of audit delay on audit findings, significant relationships were observed. Further research could concentrate on a more in-depth analysis of the causes and effects of audit delay.

REFERENCES


Ethical Leadership and Contemporary Organizational Ethics: Principles and Cases

Praveen Kulshreshtha
Indian Institute of Technology Kanpur, India

Contemporary organizations must strive to be ethical to succeed, given the complex ethical concerns that they face in today’s globalized economic environment. This paper focuses on the principles of ethical leadership and illustrates their relevance to present-day organizations, by using cases drawn from contemporary higher educational and developmental organizations. The ethics of personal leadership (in particular, Aristotle’s ethics of prudence and self-development, and “personality-based” leadership versus “character-based” leadership) and the ethics of interpersonal leadership (specifically, Confucian ethics of interdependence and Covey’s win/win paradigm of human interaction) are elucidated and their usefulness in developing contemporary organizational ethics is examined.

INTRODUCTION

Contemporary organizations must strive to be ethical in order to succeed, given the complex ethical concerns that organizations face in today’s globalized economic environment. This paper focuses on the principles of ethical leadership and illustrates their relevance to present-day organizations, by using cases drawn from contemporary higher educational and developmental organizations.

The next section elucidates the principles of ethical leadership in organizations. More specifically, it highlights the ethics of personal leadership, in particular, Aristotle’s ethics of prudence and self-development, as well as the ethics of interpersonal leadership, specifically, the Confucian ethics of interdependence and Stephen Covey’s (1989, 1992) Win/Win paradigm of human interaction.

In the subsequent section, we elaborate upon the distinction between “Personality-based” leadership and “Character-based” leadership, or in other words, the difference between leadership ‘behavior’ and leadership ‘character’. The contrast between the “Personality Ethic” and “Character Ethic”, as envisaged by various social thinkers such as Mahatma Gandhi, Ayn Rand, Rabindranath Tagore and Swami Vivekananda, is highlighted. The final section concludes the paper by examining the usefulness of the principles of ethical leadership in developing contemporary organizational ethics.

PRINCIPLES OF ETHICAL LEADERSHIP

Here, the ethical concepts of personal and interpersonal leadership are delineated. According to Peter Drucker (1981), well-known management thinker, any major conception of ethics in present times must be entrenched in ancient doctrines relating to personal leadership, such as Aristotle’s ethics of prudence and self-development, and interpersonal leadership, for instance, the Confucian ethics of interdependence.
(For an overview of Drucker’s formulation of contemporary business ethics, see Kulshreshtha (2005), p. 398.)

**Ethics of Personal Leadership**

According to the ethics of prudence or self-development, expounded by Aristotle, a person of any rank or function can be a leader in an organization if he/she sets examples of right behavior while avoiding wrong-doing, provided wrong behavior is clearly identified. Thus, leaders can ‘set the tone’, ‘create the spirit’ and ‘choose the values’ for the employees of their organization. The following cases, pertaining to contemporary higher educational and developmental organizations, illustrate the relevance of the ethics of personal leadership:

**Case 1: Commitment in Higher Learning – Does Class Size Matter?**

Consider the following account, by the president of The University of Chicago, of the two-student seminar class that S. Chandrasekhar, who predicted the existence of black holes in 1930s and won a Nobel Prize in physics fifty years later (in 1983), used to teach (Wali, 1992):

“In this day of “cost-effectiveness” and its frequent misapplication within the enterprise of higher learning, I cannot resist telling you that Chandra (Chandrasekhar) has furnished beleaguered provosts with an extraordinary example in defense of the educational traditions of this university. During the period of the mid-1940s and following, Chandra used to drive some hundred miles between Yerkes Observatory in Williams Bay and the University, week after week, to meet with a class of *two* (registered) students. Even at that time, one might have raised a question of relative investment of time and energy, but I doubt such a thought even entered his mind. When the Nobel Prize in physics was awarded in 1957, it went to the whole class, Messrs. (T. D.) Lee and (C.N.) Yang.” (brackets added) - John T. Wilson, Acting president of University of Chicago (while introducing S. Chandrasekhar to the audience at the time of the second annual Nora and Edward Ryerson Lecture, 22 April 1975)

The above story has also been cited in the press release issued by The University of Chicago, following Chandrasekhar’s death on August 21, 1995. In the press release, Princeton University Provost Jeremiah Ostriker, a student of Chandrasekhar from 1960 to 1964, said “Chandra cared for the personal and intellectual well-being of his students, trained them carefully and was willing to spend enormous amounts of time with them. He was a powerful role model for all who came in contact with him.”

The press release also stated that the above story “illustrates Chandrasekhar's devotion to his science and his students” and “any concern about the cost effectiveness of such a commitment (of Chandrasekhar towards his students) was erased in 1957, when the entire class - T. D. Lee and C. N. Yang - won the Nobel Prize in physics.” (brackets and emphasis in italics added)

Conventional appraisals of cost-effectiveness in higher learning enterprises tend to conclude that small classes are usually not cost-effective, although teaching tends to be more effective in small classes. However, the above example suggests that small classes can be cost-effective, besides leading to greater effectiveness in teaching. It is my contention that any meaningful assessment of cost-effectiveness in higher learning enterprises must consider the positive impact of teacher commitment towards learning on the success of students in the real world. As the above case shows vividly, small classes can be cost-effective in the presence of teacher commitment towards higher learning.

**Case 2: Grameen Bank and Women in Bangladesh**

Since 1976, Grameen Bank in Bangladesh, Nobel Peace Prize winning development organization for 2006, has empowered over two million villagers, mostly rural women, through provision of small loans. Its idea has been replicated in forty countries worldwide.

From its onset, Grameen Bank believed that women are more bankable and trustworthy. Today Grameen Bank has more than 2.3 million borrowers, 94 percent of whom are women. It operates in 38,951 villages, covering more than half of the total villages in Bangladesh.
According to Prof. Mohammed Yunus, Founder, Grameen Bank, and joint Nobel Peace Prize winner for 2006, women are changing the nature of leadership in organizations today, by incorporating values such as honesty, openness, patience, collective support, inclusion, and accountability.

**Ethics of Interpersonal Leadership**

The Confucian ethic of interdependence is based on an understanding of right and wrong behavior or conduct as it occurs in societal associations. According to Confucius, right, sincere or ethical conduct can be identified as the one that leads to maximum gain for every individual or party in an affiliation. Thus, sincere or right actions produce pleasant, positive and mutually favorable interactions.

In contrast, wrong, insincere or unethical actions usually involve one individual or party exploiting the other individuals or parties by using its authority or power in the association. For example, sexual harassment at the place of work is regarded as insincere or unethical under the ethic of interdependence. According to this ethic, insincere behavior is the outcome of authority in a relationship that should be derived from function only. Hence, unethical or insincere actions can result in discordant, negative and manipulative associations.

Covey’s “Win/Win Paradigm” of human interaction (Covey, 1989, pp. 206-216)) also captures the ethics of interpersonal leadership effectively. According to Covey, six paradigms of human interaction can arise in practice: Win/Win, Win/Lose, Lose/Win, Lose/Lose, Win, and Win/Win or No Deal. Covey has asserted that ethical human interaction must be based on a clear recognition of mutual interdependence among individuals. This concept is best represented by the Win/Win paradigm of human interaction, according to which an individual looks for ways to interact with others which are mutually beneficial and satisfying, resulting in greater degree of commitment to planned actions. Win/Win paradigm points towards a higher, better path for all, which is neither “your way or my way” (Covey, 1989, p. 207).

In contrast, Win/Lose represents an authoritarian approach, in which an individual aims to benefit while not allowing others to fulfill their goals. In Win/Lose, an individual uses his/her power, position, personality or prestige to achieve maximum benefit while not caring about others. However, in Lose/Win approach, an individual becomes passive and lets others have their way. Such individuals suppress their feelings and are shy to express their convictions to others. Mostly, such individuals allow ego-centric (i.e. Win/Lose) individuals to take advantage of them repeatedly, even if it means that they suffer.

When Win/Lose individuals interact with other Win/Lose individuals, the result is Lose/Lose or both type of individuals end up losing, since trying to win at the expense of others leads to losses to both parties. Individuals who follow the Win paradigm simply care for their own benefit, but they don’t necessarily want other individuals to lose. Win/Win or No Deal is a higher expression of Win/Win, where two individuals who cannot find a solution to their conflict that is agreeable to both of them, end up having no deal, i.e. they agree to disagree in an agreeable manner.

“**PERSONALITY-BASED**” LEADERSHIP VERSUS “**CHARACTER-BASED**” LEADERSHIP

In this section, we discuss an important issue pertaining to the nature of personal leadership. What is more important for creating ethical personal leadership: behavior or character? Chakraborty (1995) and Covey have argued that good personal leadership cannot be cultivated by focusing only on the performance, effectiveness and innovativeness of a leader, but requires sustained development of character in a leader, so that the leader can inspire others in an organization. As Chakraborty (p. 149) has pointed out, we cannot rely on ‘amoral’ motivation, but need to develop ‘moral’ inspiration in leaders, so that other individuals in an organization are compelled to follow them.

Examples of leaders whose character has inspired others abound: Buddha, Gandhi, Jesus, Martin Luther King Jr., Mother Teresa, Nelson Mandela, Vivekananda, and several other great leaders of the world. Such leaders have always inspired others to pursue noble goals such as commitment to truth, conviction, courage, self-restraint, self-sacrifice and renunciation. These leaders practiced the above virtues in their own lives and hence developed ‘constructively charismatic’ personalities which influenced
other greatly (Chakraborty, p. 152). Hence, although the personalities of these leaders were important, the charisma of their personalities helped others in becoming more ethical.

In this context, mentorship is often seen as integral to the process of developing ethical leadership (Chakraborty, pp. 158-162). Several contemporary writers such as Bennis (1992) and Zaleznik (1977) have stressed that a mentor can exert great influence on individuals in an enterprise through one-to-one relationship and hence, can help in grooming future leaders. As Roche (1979) has reported, based on a survey, mentorship and career growth are strongly positively correlated, with half of the executives surveyed who had a mentor indicating very high levels of satisfaction with their career development. The case of small classes discussed in the previous section also illuminates the significant role that a mentor (in this case, Professor Chandrasekhar, the teacher) can play in the career development of individuals (in this case, students T. D. Lee and C. N. Yang, who later won the Nobel Prize in Physics).

CONCLUSION

As Drucker has pointed out, ethics or sincerity of contemporary businesses can be as significant as their competence and productivity, because individuals in present-day societies rely heavily on businesses for gainful employment and material well-being. Hence, Drucker has emphasized that ethics in business today ought to be founded on a clear vision of relationships in an organization (e.g., owner and worker, supervisor and trainee).

Moreover, present-day business ethics should outline general or broad policies of right behavior or conduct for executives and workers of businesses. Thus, contemporary business ethics must identify and classify right or sincere conduct, which would lead to agreeable and fruitful associations inside businesses. Furthermore, business ethics in present-times should generate a vast pool of leaders at all functions and ranks in businesses, as articulated by the ethics of prudence and self-development.

REFERENCES

The Beatles’ Personalities--Leadership Style as it Relates to the 21st Century

Jaime Sampayo
Kennedy Maranga

The theory of leadership is typically characterized with decision making. The authors emphasize virtues and personalities such as tolerance, compassion, harmony, etc in this article as it relates to the musical group—The Beatles. This article examines the basic theory of leadership and how one group’s member’s personalities have lessons in leadership. The purpose of this paper is to extend the discussion on leadership theories in a more critical manner. Lessons learned may benefit leaders and employees worldwide. The emphasis is on the musical group the Beatles and how their four distinct personalities paved the way for success not only in the music world, but the financial world, as well as in the world of public opinion. The authors argue that the four Beatles personalities, are everywhere one looks: in leaders, managers, and employees. Everyone experiences the distinct personalities all the time and in every place. The authors identify gaps in literature as well as make research recommendations for future research.

Examination in the era of leadership theory from about 2300 B.C. to 1 A.D. shows that this was a period characterized by who were great men with inherent and learned sources of authority and justice. During this period, world leaders chose subordinate leaders whom they thought to be appropriate for certain roles: kings, princes, chiefs, or prophets (Bass, 1990). Each of these chosen leaders eventually became heads of state and led people in all realms. They possessed various characteristics and personalities that made them great and facilitated the masses to follow them. In essence, they were individuals who directed others to follow them through various mechanisms of power and control. This theory has evolved over time.

Leadership can come through various vehicles. Sometimes it comes through self-inspired thoughts, or even through watching life as it occurs. At other times, it comes in a song, words put to music, or even through the lives of those playing the music. How often is it that we admire and emulate musicians we listen to on the radio; records; cassette tapes; CDs; or even shared music? This article is about a musical group—the Beatles—and the personalities about the four Liverpudlians, who not only changed the world in terms of style and music, but also possessed the four basic personalities that all human beings, including leaders at all levels, possess or acquire as they grow, learn, and apply leadership to situations around them. The four basic personalities which all individuals fall into at one time or another in their lifetimes are those of the Beatles—John Lennon, Paul McCartney, George Harrison, and Ringo Starr. In addition to their distinct personalities, they each also possessed individual music talent, which when combined with their individual personality, produced a sum of four greater than each could produce individually.

One does not have to be a Beatle or a musician to be successful as a leader, nor does one have to possess individual musical talent. What the leader of today needs to understand is that his or her
personality and how he or she uses those talents or learned behaviors, especially when placed in leadership scenarios, may characterize the leader’s style. This paper discusses the four basic Beatles’ personalities and how leaders of today can use them in conjunction with leadership theory and style in order to succeed in leading others or even succeeding in life in general.

Social Power Theory
More than 50 years ago, French and Raven’s (1959) article entitled The Bases of Social Power, described the five modalities (reward, coercive, legitimate, referent, and expert power) managers use to influence others (French & Raven, 1959). One modality (referent power) is the foundation of what is known as leadership that changes both manager and employee for the better in the workplace (Bass, 1999). Referent power refers to the phenomenon that takes place when employees and managers connect on an interpersonal level, and identify with each other because of personal liking or admiration (Elias, 2008; Rahim, Antonioni, & Psenicka, 2001). Previously, managers practiced influence through tasking (task-oriented leadership) of employees, whereas today, cultural changes necessitate a more creative effort on management’s part, in order to keep employees motivated to accomplish organizational goals (Jing & Avery, 2008).

According to Steven Elias’ (2008) article entitled Fifty Years of Influence in the Workplace: The Evolution of the French and Raven Power Taxonomy, researchers should investigate links between leadership that establishes a positive relationship between manager and employee (Elias, 2008). When employees positively identify and interact with managers, the effect is to motivate, empower, and communicate clearly with subordinates and employees, so they feel better about themselves and their jobs. This indirectly, and perhaps directly, influences them to act in accordance with organizational goals and objectives (Bass, 1999).

Inevitably, everything in today’s management paradigm deals with power and influence (Bass, 1999; Elias, 2008; French & Raven, 1959), whether it is leading a military unit on the battlefield, leading employees in the Air Force, or managing a group of employees. Leadership, by its nature, is about human interaction, and getting followers to act on behalf of an individual or organization, to further that organization’s goals and objectives (Elias, 2008; French & Raven, 1959). The question remains how to increase manager-employee interaction through a leadership style that is best suited to manage, and positively influence employees. The main issue is determining how managers can positively influence employees via a power mechanism, minimizing friction, and still getting employees to act accordingly on behalf of their employer.

There is no doubt that leader everywhere face the issue of identifying which leadership style works, and how it will be used. Leaders, at whatever level in which they find themselves, continuously strives to improve manager-employee interaction through a form of leadership mechanism that enforces basic leadership principles, but also encourages employees to connect with managers, and accomplish organizational goals and objectives.

What Entails Leadership?
Inevitably, everything in today’s management paradigm deals with power and influence (Bass, 1999; Elias, 2008; French & Raven, 1959), whether it is leading a military unit on the battlefield, leading professionals in the Air Force, or managing a group of employees (Sampayo, 2012). Leadership, by its nature, is about human interaction, and getting followers to act on behalf of an individual or an organization, in the furtherance of that organization’s goals and objectives (Elias, 2008; French & Raven, 1959), and it is sometimes based on the leader’s personality. The main issue in this article is to determine which Beatle personality one falls under as a leader to better understand the self, but more importantly, to know how to use such personality traits to lead others or apply learned techniques to lead. In order to understand the factors that contribute to leading with one’s personality, there need to review the definition of basic leadership theories.
Leadership Defined

Leadership is defined in many ways. There is no single universally accepted definition of leadership. Definitions of leadership mainly relate to the various leadership perspectives. These perspectives include personal traits, behavioral aspects, power-influence and/or situational environment. Some define it as a process of influencing others to act (Northouse, 2010; Yukl, 2010). However, for purposes of this paper leadership is defined as a process of influencing and getting things done with the aid and support of others to pursue a common goal. Still, others describe it as organizing a group of people to achieve a common goal, or getting them to perform to their maximum potential (Cohen, 1990). Leadership is also defined as persuading subordinates to work toward organizational objectives and goals (Northouse, 2010).

The manner (style) in which leaders use their influence to motivate, and have followers comply of their own volition, is the key element (Phillips, 1992). Winston Churchill defined leadership as influencing others by having them put aside their own personal interests and support a different plan, at least for a period of time (Boseman, 2008). In general, leadership is based on various models that developed over the years through a long history (Taormina, 2010; Van Vugt, 2006). The five most common leadership theories are trait, behavioral, contingency, situational, and path-goal models (Northouse, 2010; Yukl, 2010). These theories are inherent in all leadership styles, and thus are the underlying concepts from which all personality leadership springs. Moreover, the leader’s personality can be a major factor and key element of the leadership paradigm. What this demonstrates is that leadership is defined in terms of transformational and transactional dimensions.

Trait Leadership Model

The most common leadership theory is leaders possessing inherited traits (Northouse, 2010; Yukl, 2010), indicating that leaders are born, and not developed. This theory involves the identification of an individual’s (the leader) talents, skills, and physical characteristics. It concentrates on personality, motives, values, and skills, including intelligence and experience. There are basically two types of leaders (Bass & Avolio, 1994). One engages with others on a personal level, and he or she is considered a transformational leader. The other type directs others, in exchange for a reward of a non-personal nature—monetary or otherwise—and is a transactional leader.

In addition, other traits affect how a leader manages and influences subordinates and employees. These traits are predictable, and are common in all organizations and employees at any level. Traits associated with the successful manager include intelligence, personality, humor, ethics, and gender (Northouse, 2010). While some of these may be considered immutable traits, others, such as humor, ethics, and personality, can be considered behavioral, learned over the course of a career, or developed throughout life. In today’s ever-changing complex world, one of the skills most useful in effective management are problem solving is personality and getting along with others through positive interpersonal skills.

By incorporating the personality tool with a specific leadership technique, managers motivate employees to produce and build long-term trust in the manager-employee relationship (Maccoby, 2004). The authors recognize these traits in their own leadership styles, and those of the managers they have worked under. Their perceptions were based on observations of others’ traits, particularly if past managers had an impact on them, and their eventual use of charisma through interaction with employees.

The concept of collective personality, in conjunction with individual manager’s leadership style, has either a positive or a negative effect on employee performance. Researchers find that an engaging personality has a positive effect on employee motivation, intellectual stimulation, and exerted effort at work, especially when related to collective openness, agreeableness, extraversion, and conscientiousness (Hofmann & Jones, 2005).

Behavioral Leadership Model

The behavioral leadership theory is based on the belief that leaders can be developed, and are not just born with inherent leadership characteristics (Cohen, 1990; Northouse, 2010). This theory is rooted in behaviorism and focuses on the leaders’ actions, and not on mental qualities or internal states, such as
intelligence or self-confidence. Accordingly, individuals can become leaders through teaching processes and observation of others’ behaviors. The success of the behavioral leadership model depends on the leader’s style through displayed behaviors and skills, and how he applies them to various workplace situations (Yukl, 2010). This model lays the foundation regarding the leader-subordinate relationship, since leadership style is based on interpersonal relationships, and leaders’ actions toward employees, which is partly based on personality.

Since behavioral theory focuses on a leader’s behavior, Douglas McGregor’s (1960) book on manager’s beliefs and related behaviors indicates that there are two types of employees—those who have to be coerced, and those who are self-motivated. Most managers, at one time, manage under the impression that workers would avoid work, and would rather be directed through coercion to achieve organizational goals (Theory X) (McGregor, 1960). At the opposite end of the managerial spectrum, employees (if committed) will be self-motivated, creative, and innovative, plus will seek and accept responsibility as part of the human condition (Theory Y).

The behavioral theory suggests that managers are primarily interested in human relationships, and employee performance via five managerial styles (Northouse, 2010), thus making someone’s personality key. These styles include (1) impoverished management: Managers under this style exercise minimum effort to get work done from subordinates. There is low concern for employee satisfaction and work deadlines. Disharmony and disorganization prevail in the organization. Managers tend to be identified as ineffective, and their intent is to preserve their jobs and seniority; (2) country club management: Managers under this style provide a collegial style, and focus on employees’ wants and needs. There is less emphasis on production or tasks.

Managers create a positive work atmosphere, in hopes that employees will be self-motivated to perform. Low task focus can negatively affect production; (3) middle of the road management: Managers under this style find a balance, taking both work requirements and people’s needs into account. The manager avoids conflict, and focuses on moderate levels of production and employees’ needs. This style has neither employee nor production needs fully met; (4) authority-compliance management: Managers under this style are more concerned with production and less concerned for people. This style is based on McGregor’s (1960) Theory X of management, where people are tools to meet organizational goals. Results drive this style, and employees see the manager as overpowering, task-oriented, and controlling; and (5) team management: Managers under this style emphasize both tasks and interpersonal relationships, similar to McGregor’s (1960) Theory Y style of management. There is a focus on teamwork and individual participation, so employees feel involved, and committed to their work. Each of these levels represent the manager’s people or performance approach to management of employees (Blake & Mouton, 1964).

A leader’s style and behavior, which largely is based on personality, provide a better gauge of the type and amount of output his employees will produce. From a managerial standpoint, in order to evaluate a manager’s leadership style, and how he performs with relation to managing employees, it is best to determine which type of manager (X or Y) he is, with relation to McGregor’s (1960) theories. Additionally, given that most managers oversee various employees and organizational operations in different places, both personality and leadership style will vary and change, depending on the circumstances, given that most managers change as needed in their managerial style, or concern for people or performance.

**Contingency Leadership Model**

Contingency leadership theory states that the right leadership style must be matched to the right setting (or workplace circumstances) in order to be the most effective (Michael, 1976). Contingency leadership focuses on particular variables related to the environment that may determine which particular style of leadership works best in a given situation, to include whether the manager is task- or relationship-motivated (Northouse, 2010). It stands for the proposition that no leadership style is best in all situations. Variables helping to determine success include leadership style (including personality), follower qualities, and situation aspects (Rice & Kastenbaum, 1983; Yukl, 2010). The only issue with this model is that once
the manager is in place, he or she may not be able to adjust to the circumstances, or the work situation may change, such that the manager may not be able to change leadership style. Ultimately, the situation controls the type of leadership required.

**Situational Leadership Model**

Situational leadership theory is similar to the contingency leadership model, but takes into account the situation first (Larsson & Vinberg, 2010). The model calls for appropriate styles of leadership types of decision-making situations. It proposes that different situations call for different leadership styles. Unlike the contingency theory, the leader (based on what his/her personality is willing to risk) can adjust his leadership style to fit the work situation, thus allowing for more flexibility, as compared to the contingency model. For example, when managers have to deal with employees with disabilities, they may have to change or adjust their leadership style to accommodate the employee (Cubero, 2007).

The situational leadership model, also known as the Hersey-Blanchard Model (Hersey & Blanchard, 1969), includes four different styles of leadership to match, depending on the situation. The four basic types include delegating (low supportive, low directive behavior), supporting (high supportive, low directive behavior), coaching (high directive, high supportive behavior), and directing (low directive, low supportive behavior). Each type is matched with the subordinate’s competence and commitment. Under this model, it is the manager’s responsibility to determine the type of employees he or she has, and how to adjust his leadership style (one of the four mentioned above), depending on style, situation, and employee needs. This model is flexible, and takes into account the two factors (employee needs and manager leadership style, which is based on personality) common in all managerial situations (Northouse, 2010). This model does not focus on employee engagement principles. Instead, it concentrates on the environmental conditions and personality primarily, which may be more applicable in current work environments and situations.

**Path-Goal Leadership Model**

The path-goal leadership model (House, 1971; House & Mitchell, 1974) indicates that employees are motivated to perform when they successfully accomplish tasks; it leads to a valued goal. Employees are motivated if they think they can perform work. Their task accomplishment will result in a certain outcome, and the benefits are worth it. Under this model, communication is the key to success from both the manager and employee’s perspectives. To increase motivation and job satisfaction, the manager (under this model) clearly communicates to employees exactly what is expected of them regarding task completion. The manager also clearly articulates what rewards await employees once tasks are accomplished. The main theory behind the model is to have the manager, via a specific leadership style, provide employees a path to success, in terms of removing obstacles to opportunity and personal satisfaction. The path-goal model focuses on exchanges between leader and follower, and emphasizes rewards for work accomplished.

Under the path-goal model (House, 1971; House & Mitchell, 1974), managers’ leadership styles and behaviors are important. The behaviors include four distinct characteristics, specifically being directive (clear guidance on performance standards), supportive (being approachable, friendly, available), participative (requesting subordinate is input in decision-making), and achievement-oriented (setting high, but realistic, standards). This model allows for some flexibility (like the situational model) to adjust the work situation, or employees’ needs and desires, in that it is fluid, and can change as needed. Since flexibility may be personality based, this may affect how they deal with workplace situations and employee issues, thus leading to their individual leadership style.

**Enduring Leadership/Lasting Leadership**

Sometimes leadership is personality based. Although limited, the Beatles were successful and proved some valuable lessons learned with four distinct personalities. Personality also comes out of their songs and lyrics. Personality, combined with creativity, risk-taking, and raw talent, may have left a legacy for generations, not only for others to emulate their personalities and behaviors, but to also copy their musical
style and sound. It is the four different types of ordinary personalities, combined with universal factors that may reshape the leader or create opportunity and hope for others who follow.

The Individual Beatles’ Personalities and Management Styles

In and of themselves, the Beatles were four ordinary residents of Liverpool, England, who grew up in typical British neighborhoods in the 1950s. They all came from middle to lower middle class families, with each one coming from normal families, some of which were musically talented. They began as amateur musicians who developed into very proficient musically talented individuals. However, it was their charismatic personalities and their British wit that carried the day, especially when being interviewed live. Their antics and quick-witted responses made them lovable and adored by fans, including parents of teenagers. It was the combination of their individual personalities and unique blend of musical talent and originality that made them leaders of a generation, and possibly leaders in music even today (Aldridge, 1990; Burrows, 1996; Bushkin, 1998; Du Noyer, 1997; Giuliano, 1992, 1993a, 1993b; Hill & Clayton, 2000; Lewisohn, 1988, 1992; Linkner, 2014; Roylance, Quance, Craske, & Milisic, 2000; Sampayo, 2012; Shapiro, 2002).

Musically, as well as personality-wise, the Beatles pushed the envelope in terms of being ahead of their time (Linkner, 2014). They were unconventional in that they created a new musical sound, which was new and original, similar to Elvis Presley, but as a musical group and not only one individual singing. Their music evolved, as did their individual personalities; they were experts in their craft and became so in their personalities, thanks to the press. The Beatles had a good team around them, who took care of them and helped elevate their careers to worldwide stardom, beginning with their manager, Brian Epstein. The Beatles’ empire even built a fan base unrivaled even today. Their fans ranged from the very young, to even grandparents, based on media interviews and their semi-clean-cut appearance. The Beatles were all from humble roots, and each of them cared for one another like brothers (Wonfor & Smeaton, 1995). Finally, their product was simple and made for the masses, which combined with their personalities, made them a hot commodity, even now.

John Lennon

It was John Lennon who started the Beatles and the one who was their leader, from the very beginning, on through their breakup in 1970. John Lennon also possessed the personality of the cynic and trouble maker, who could pick a fight and at the same time, be hilariously funny, but nonetheless could scold and scorn others to no limit. His personality was one of the alpha male, and the one who could provide scathing remarks toward someone or something without missing a beat. John Lennon was the one who strategized in terms of leading the group and who the media saw as the confrontational one with unique ideas, risk taker, and who possessed a high degree of jovial and sophisticated wit. He was also the deep thinker who often talked and wrote music about things in his life or events that helped shape his viewpoint and outlook on issues of the day (Bushkin, 1998; Du Noyer, 1997; Giuliano, 1993b; Roylance, et al., 2000).

Paul McCartney

Paul McCartney was known as the “cute” Beatle. He was the one who was the most musically talented and who kept the Beatles together, even when times were tough for all of them to remain in the group. He was the one who was the most nourishing of others’ feelings, and the one who possessed a personality of consensus and collaboration. As a very easy-going individual, Paul McCartney complemented well John Lennon, and their personalities were polar opposites, but he too had a tough side when it came to working musical chores and recording songs and contracts. As a leader, Paul McCartney was more the team player who always had to be in a band (new musical group in the 1970s and 1980s called “Wings.”). His leadership style was more transformational in that he involved others in his band and each contributed to the final product, i.e. song or performance (Burrows, 1996; Bushkin, 1998; Giuliano, 1992; Lewisohn, 1992; Roylance, et al., 2000).
George Harrison
George Harrison was known as the “quiet” Beatle or the “deep” Beatle. He was always in search of the soul and of the deeper meaning of life, as mentioned in his songs both during the Beatles era and afterward as a solo artist. His leadership style was also collaborative, in that he invited others to write and perform with him, i.e. The Traveling Willburys, Concert for Bangladesh, and having written the only Harrison-McCartney composition on record [the song “In Spite of All The Danger”]. George Harrison led other through his expertise (world renowned guitarist and song-write) and his cool, calm, and reserved demeanor. His style was more of a laissez-faire style, where he did not impose on others, nor did he dictate what needed to be done. He also did not bark out orders or threaten others to perform. (Burrows, 1996; Bushkin, 1998; Giuliano, 1992, 1993a; Roylance, et al., 2000; Shapiro, 2002)

Ringo Starr
Ring Starr (AKA Richard Starkey) was known as the “funny” or “happy-go-lucky” Beatle. Of the three other Beatles, Ringo was the more fun-loving individual, and he was always smiling and appeared to not have a care. His leadership style is like George Harrison’s laissez-faire type, in that he did not impose on others, nor did he engage in behaviors that indicated he was a transactional leader; he was more of a collaborator and trusted others to act on their own without guidance. His personality was getting things done through charm and goodwill, as opposed to threats or coercive tactics (Burrows, 1996; Bushkin, 1998; Giuliano, 1992; Lewisohn, 1992; Roylance, et al., 2000).

Summary
Leadership is mostly defined by our perspectives of particular individuals we believe, are willing to support, and more importantly, admire. In what we refer to as a “great man” leadership perspective, leaders must appeal to religious; ethnic cultural; political; or national characteristics. We argue that the Beatles have over the years satisfied this “great man” leadership concept. Every leader has a personality, but it is how he or she uses it that makes a difference in any leadership scenario. When it comes to the leader using his or her personality as the vehicle with which to carry out a plan or get others to act, it is the art and the manner in which the leader uses tools available to get things done. Indeed, the leadership style and personality type play a great role in producing the ethos of a leader. Leaders are not merely identified by their leadership styles, but more importantly, by their personalities and their awareness of others and themselves. It is therefore recommended that scholars examine and analyze deeply into the four basic Beatles’ personalities and examine why they were so loved and successful, full of intrigue, and enjoyed by all, yesterday and today. Leadership style also depends on the type of professional being led. When leading others, for example, one must take into account concerns unique to those others, such as competitiveness, and litigation in various areas of law (Muir, Douglas, & Meehan, 2004). These factors combined play a part in the leadership paradigm. It can also be extrapolated that each particular profession has its own unique concerns that influences the leadership style selected by managers.

The findings in this paper will add to the current literature about leadership and the use of personality in the workplace. This analysis may be of interest to leaders and managers in any organizations large and small. Furthermore, managers and leaders at all levels may benefit as well, thus potentially generalizing it to other organizations or similar personnel in other sectors.

Finally, this article provides a different view to the body of knowledge, by taking a well-known musical group and describing its members’ personalities, and applying them to leadership and what those personalities can do in the world of leadership and management. There is no doubt that this paper will open the door for further research, whether they are musical groups or otherwise, expanding the study of differing personalities, and thus possibly recognizing which ones work to motivate employees.

REFERENCES


In order to attain a desired level of job performance in any work setting, a number of factors are often considered. This paper discussed how work ethic affects workers’ job performance by evaluating how either strong work ethics (SWE) or weak work ethics (WWE) can contribute to encouraging or discouraging workers’ job performance. Although instances of excellent performance amidst unethical practices have been recorded, however, a sustainable performance can only be achieved through strong work ethics. The extent to which employees encourage integrity, sense of responsibility, quality, self-discipline, and sense of teamwork in work discharge determine whether strong work ethics or weak work ethics contribute to job performance level. Literature review and theoretical ground point towards the need for workers’ to promote ethical practice and discourage unethical acts which can undermine corporate image and excellent performance. This study proposes that strong work ethics results in excellent work performance.

INTRODUCTION

Purposeful actions in a proactive manner are required of contemporary organizations to achieve desired level of performance from workers with cognizance to the acceptable norms and best practices in the industry they belong too and country of operation. In the words of Altham (2002), one of such action known as ethicism is increasing, with work ethics as one of such actions that can bring about the desired performance level of employees job performance, irrespective of the sharp practices and unethical work practices of competitors in the business environment. However, there is perceived decline in work ethic (Tolbize, 2008), an evidence of this is well established in the integrity violations by many employees in our contemporary work organizations. Issues of fraud, theft, corruption, manipulation of information, misconduct, and the likes are well reported now (Huberts, Kaptein, Lasthuizen, 2007). Notable scholars are of the opinion that to remain market a leader or become industry champion, ethical behavior must be institutionalized (Victor and Cullen 1988; & Schminke, Arnaud and Kuenzi, 2007).
Performance is behaviour exhibited or something done by the employee (Campbell, 1990). Attempts at defining individual work performance revealed that it is associated with work behaviors that are germane to organizational goals which are within the individual job holder’s control (Campbell, 1994; Viswesvaran & Ones, 2001; Koopmans, Bernards, Hildebrandt, Schaufeli, De Vet & Van Der Beek, 2011). Campbell (1994) admitted that work performance should be defined through behaviour of job incumbents as against the results and must be defined within the context of behaviours that are pertinent to the organizational goals. However, the drive to perform excellently well has made a lot of job incumbents to be solely interested in the results and not minding how it is achieved, ‘unfair you will say’ but the truth is that colleagues who are well known unethical practices are reaping the dividend without check. Those individuals and organizations that are not ready to follow this unethical ways often face the difficulty of meeting up with targets in a timely manner. Against this backdrop, lots of arguments have been raised on what sorts of work ethical behaviour is expected of employees in the world of work to keep to the expected job performance. Research evidences have shown that strong work ethics contribute to good job performance while poor or low performance result from weak or negligence of work ethics (Ntayi, 2005; Ghorpade, 2006; Mann, 2010; Rokhman, 2010; Meriac, 2012; Linz & Chu, 2012).

Marri, Sadozai, Zaman & Ramay (2012) opine that, work ethics facilitate employees’ attitude towards hard work and their organization too. To guarantee employees job performance, such employee must have displayed a high sense of responsibility, integrity, discipline, quality, and sense of teamwork. Some argue that any of such conducts are limited just to the job description and responsibilities. Others argue, though, that they also have ethical responsibilities towards the organization by ensuring its continued survival. Therefore, this study discusses the effect of work ethics on workers job performance level. The study examined how work ethic affects workers performance and evaluated how either strong work ethics (SWE) or weak work ethics (WWE) can contribute to encouraging or discouraging workers job performance.

The specific issues are:

i. What is the attitude of workers towards work ethics?
ii. Can job incumbents uphold work ethics in the face of harsh operating business environment?
iii. Does the organization promote ethical practices?
iv. Does the organization appreciate workers with strong work ethics?
v. Does the method of handling internal workplace issues recognize the challenges of sticking to work ethics?

REVIEW OF RELATED LITERATURE AND CONCEPTUAL FRAMEWORK

The concept of ‘work’ is central to this review. It is a universal phenomenon which varies in usage from formal activities to informal activities whether in the primitive to the contemporary sense. Such definitions have distinct work from other activities as play, recreation, or art (Ogunbameru, 2000). In this context, work is viewed as “a human activity directed to an object, such lecturing, producing soap,” Thus, work involves transitive activity existing for the sake of its object which intend to meet needs of people. As Kuper & Kuper (1996) put it, ‘any physical and or/mental activities which transform natural materials into a more useful form, improve human knowledge and understanding of the world, and /or provide or distribute goods to others’.

Work from these views intends to serve a number of functions and these functions are for some purposes. The most obvious is the economic function of producing goods and services and in return for this exercise the employee is paid wages for doing the job right. Dessler (1983) suggests that work performance is a measure of how well an employee meets the standards that are required on a specific job. Work performance is the quality and quantity of human output necessary to meet work goals agreed upon between employees and their managers Ivančević and Matteson, 1996). To achieve the job allocated to a worker, it must have been evaluated as either good or bad if a standard of performance has been agreed upon between employees and their managers.
Ethics is derived from the Greek word "ethos" which means character or custom. According to Hubert et al. (2007), Ethics is the collection of values and norms, functioning as standards or yardstick for assessing the integrity of individual conduct. It defines what make behaviour to be right or wrong (Fajana, 2006). Ethical behaviour defines within a context or setting what is acceptable or not. In his earlier writings, Pojman (1990) offers four areas which ethic is usually conceptualized: Actions, the act (right, wrong, permissive), Consequences (good, bad, indifferent), Character (virtuous, vicious) and Motive (goodwill, evil will).

Thus, ethics is a field that involves the studies of human behaviour, in relations to what is expected of him/her by others (Malloy, 2003) and because we are interested in his/her work, it involves what is expected of him/her when performing his/her duties at work. Work ethics are the standards of behaviour that guide individual workers in their work and in relationship with fellow workers, customers and other economic agents (competitors, shareholders, suppliers, dealers, etc.). These ethics guide the thinking and decision making with respect to what is good and what is bad (Grace & Cohen 2005). The traditional work ethic stresses that, work is inherently good and by working hard one can overcome obstacles and succeed in life (Yoder & Staudohar, 1982). It is conceived as people’s orientation to and expectation from work as informed by their convictions (Pojman, 1990; Norman, 1992). Fajana (2006) opine that, it consists of those principles and practices that are concerned with morals and good conducts in industrial life. Thus, work ethics represent what should or should not be done at work.

Historically, Ethic has a protestant origin but the historical roots of work ethics programs were originally implemented in the defense industry to help organizations comply with the increased regulation following a series of scandals. The whole idea present work as a religious and moral obligation, and is now widely used as a simplified popular version of the concept, especially in the context of explanations for employees’ performance, organizational performance and productivity. In the United States, ethic was introduced and diffused by religious groups in the 1930s. The development of work ethic was aided by the country’s vast natural resources and the belief in America as the land of opportunity, as well as wartime patriotism (Fajana, 2006). In Western Germany after the end of second world war, the need to survive the effect of war led to gospel of work ethics while in this part of the world, the situation is different, the quest to find the appropriate philosophical and development paths within a minute resulted into less ethical practices and high rate of fraudulent practices (Aina, 2000).

A number of divergent views have been put forward on what constitute ethical behaviours. Anstett & Guest (2007) presented four perspectives of ethical behaviour which are related to this discourse. This is represented figure 1 below:

**FIGURE 1**

**PERSPECTIVES OF ETHICAL BEHAVIOUR**

<table>
<thead>
<tr>
<th>Moral-rights view</th>
<th>Does a decision or behavior maintain the fundamental rights of all human beings?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individualism view</td>
<td>Does a decision or behavior promote one's long term self-interests?</td>
</tr>
<tr>
<td>Utilitarian view</td>
<td>Does a decision or behavior do the greatest good for the most people?</td>
</tr>
<tr>
<td>Justice view</td>
<td>Does a decision or behavior show fairness and impartiality?</td>
</tr>
</tbody>
</table>

Source: Adapted from Anstett & Guest, (2007)
The utilitarian view considered how things are done. It observes that greatest good is often delivered to the greatest number of people. It tries to assess the moral implications of decisions in terms of their consequences. While it is believed that this view can promote worker’s efficiency a factor that is sine qua non for excellent performance, it can result into ignoring the rights of some individuals in the larger society. On the contrary, the individualism view is based on the belief that one’s primary commitment is to the advancement of long term self-interests. If self-interest is pursued from a long term view, the argument holds that lying and cheating for short term gain should not be tolerated because if one person does it, everyone will do it, and no one’s long term interest will be served (Trivers, 1985; Tullberg, 1996; Grace & Cohen, 2005). The individualism view is supposed to promote honesty and integrity but in work places it may result into ‘pecuniary ethics’ described by observer as the tendency to ‘push the law to its outer limits’.

The moral-right view established the need to respect and protect the fundamental rights of people. The right of people to life, liberty and fair treatment must not be trampled upon. However, this right can create a too formal work setting which many scholars have criticized on the ground that it hinders efficiency. And lastly, the justice view is based on the belief that ethical decisions treat people impartially and fairly according to guiding rules and standard. This approach evaluates the ethical aspects of any decision on the degree to which it is equitable for everyone affected. Justice practice could lead to an attitude of entitlement and reduces productivity.

Considering the above positions, a number of theoretical grounds can be explored to explain the relationship between work ethics and employee’s job performance. The Labour process theory which was originally formulated by Karl Marx (translated in 1976) and expanded by Newton and Findlay (1996) argued for how management can move away from the belief in work too job holders’ behavior and establish control mechanisms at their disposal. According to them, management is constantly seeking ways to improve the effectiveness of control mechanisms to achieve job performance. This in a way promote what work behavior will bring about desired level of job performance in the form of work ethics. Although the theory fall short in explaining what makes work ethics to be strong or weak. The agency theory clarifies this by asserting that for any organization to experience and enhance its workers performance, the workers activities must be well guided through work ethics. Otherwise known as principal agent theory indicates that principals (owners and managers) have to develop ways of monitoring and controlling the activities of their agents (workers). The theory envisaged certain problematic areas and demand proper clarification of work in terms of objectives and expectation and setting up of feedback mechanism to measure performance. This theory promotes how to ensure compliance of employees to job description, discipline, integrity, team work and quality.

Conceptual Framework

The model below contends that employees with strong work ethics performance excellently well on the job as against employees with weak work ethics.

Based on the review of existing literature related to work ethics and employee’s job performance, this conceptual model (Figure 2) is developed suggesting that employee job performance through work ethics is influenced by a number of variables such as integrity, sense of responsibility, discipline, quality and sense of team work. This model posits that work ethics can either be strong or weak with bearing on employee’s job performance.

Job performance has been one of the important variables studied for a long decade now (Jankingthong & Rurkkhum, 2012). From the perspective of employee, it is the extent to which employee is able to accomplish the task assigned to him or her. Employee’s job performance is the level of individual employees productivity in relations to job related behavior or expectations (Babin & Bolos, 1998), such performance could be judged excellent, good, average or poor when expectations are compared with actual output. Performance in this sense relate to task performance which is behavioural oriented depending on the attitude of job holder towards job (Borman & Motowidlo, 1997; Werner, 2000), in the words of Aluko (2000), work behaviour refers to ‘all human acts which are exhibited in work situations’. He opines that to have a good performance at a micro level there must be interaction between work and
worker. Such interaction involves the behavioural aspect of the work (job content analysis) which if not properly guided could result into deviation from its initial planned activity in the form of poor performance. This guide is called ‘work ethics’. When it is strong, it promotes excellent performance of the job but if otherwise that is weak, poor performance result whether in the short or long run. Job performance is not a single unified construct but a multidimensional construct consisting of more than one kind of behaviour. Austin and Villanova (1992) and Campell (1990) argue that job performance is a complicated and multidimensional factor. A number of studies confirmed that excellent or good performance of an individual employee is related to strong work ethics (Herman, 2002; Mann, 2010 & Meriac, 2012). Individuals with strong work ethics tend to work for a longer hours and spend less time on leisure enjoy higher performance (Linz & Chu, 2012). Herman (2002) admitted that efficient and constructive use of time is consistent with strong work ethics. Delaying or avoiding the execution of a task no doubt contributes to poor performance of job by employee (Van Eerde, 2003).

The concept of employee integrity has significant and direct impact on the quality of job performance (Cullen & Sackett, 2004). However, only few employees appreciate the responsibility of promoting integrity (Baxter, Dempsey, Megone & Lee, 2012), forgetting that employee integrity is a vital component of productive work relationship (Cameron, 2003). Barnard, Schurink & De Beer (2007) defines integrity as the ability to judge and evaluate oneself against universal values and principles. Baxter et al. (2012) defines integrity as wholeness of character, ethical values, identity, consistency, transparency, openness and standing for something. It can be perceived as internalized set of values and principles that function as the norms and standards that one lives by and that direct all ones actions and decisions (Lennick & Kiel, 2005). This view is based on moral compass which Barnard, et al (2007) saw as one of the arm of integrity, the moral campus is having and living according to a core self-values and principles. On the
contrary, the inner drive which is also another arm of integrity is built on motivational forces which drive individual to achieve progress and work harder whether for individual prosperity or organization. Furnham & Taylor (2004) attributed limited or poor sense of integrity to individual workers pursue for personal gains which is often at the detriment of expected job deliverables for the organization. Lasthuizen (2008) describe integrity as the quality of employee’s behavior in accordance with the values, norms, rules and obligations of the organization and its environment. It encapsulates self-motivation and drive, moral courage and assertiveness, honesty, consistency, commitment, diligence, self-discipline, responsibility, trustworthiness and fairness (Barnard, Schurink & De Beer, 2007). Park & Peterson (2003) linked integrity to authenticity and honesty. Integrity stretches to all aspects of an employee's job. An employee with integrity fosters trusting relationships with clients, co-workers and supervisors. Co-workers value the employee's ability to give honest feedback. Clients trust the employee's advice. Supervisors rely on the employee's high moral standards, trusting him not to steal from the company or create problems.

There are evidences that employees sense of responsibility to duties contribute to performance (Furby, 1991; Van Dyne & Pierce, 2004; Nyborg, 2014). While it is unarguable that the level of responsibility to job by employees varies in terms of effort and time, a higher sense of responsibility affects how an employee works and the amount of work carried out. Lack of responsibility infers poor or low effort and time allocated to duties by employees. In order to promote high sense of responsibility among workers, organizations must establish positive work ethics. When employee feels personally responsible for job performance, efficiency and effectiveness is often the order of the day.

A significant input that cannot be compromised in the recent past in any work system is the quality of output. One major factor responsible for this is the increased level of competition among organizations (Salanova, Agut & Peiro, 2005). Although there is no agreed definition of quality of work (Dahl, Nesheim, & Olsen, 2009), but expectations exist for job incumbents with which performance could be measured. Also, organizations have realised that the direction, intensity and duration of effort expended by individuals influence the quality of their job performance (Ivancevich & Matteson, 1996). Interestingly, some empirical studies have found out that job incumbents can manipulate work quality level for reasons known to them (Toibize, 2008), such as poor pay, lack of recognition, unfair labour practices, denial of promotion, etc. does a system must be developed to ensure that work are completed error free, product or service comes with minimal waste of time or resources, and in right quality. Thus, quality in this sense represents good work which must employers and mangers emphasises on from time to time. In line with this, professional organizations consistently emphasize the importance of quality in their process, products and services. Non-owner employees pay less attention to the quality of work (Kruse, 2002). Although Green (2006) admitted that quality of work has declined due to a number of reasons, that does not mean it should be encouraged or that people still do not appreciate one. Quality is still a cutting edge for a number of organizations in the world today.

A self-disciplined worker stays focused on his goals and is determined to complete his assignments on record time without compromising excellent performance. It takes a certain level of commitment to finish your tasks every day. Workers in this category cherish organization image and show a high level of commitment to the organization values, always ensuring they do their part.

Team work is known to have many benefits like increasing productivity, creativity and performance (Rousseau, Aube & Savoie, 2006). While some individual workers appreciate working with a team others might prefer independence and low level of participation with any team (Buchanan, 1998), in order to tap into the associated benefits of affiliation with a team organizations are expected to ensure team work environment, contrary to this some organizations have not really promoted team work environment (Valle & Witt, 2001). Though it can be the responsibility of management to motivate individual to develop sense of team work (Lembke & Wilson, 1998), job incumbents should know that sense of team work would assist them in achieving their job deliverables beyond what is expected of them if they encourage teamwork due to the inherent benefits such as effective communication, coordination, contributions of team members, mutual support, and solidarity (Hoegl & Gemuenden, 2001). Studies have shown that a sense of team work promote better performance of employee on the job (Buchanan, 1999). Discharging responsibilities in isolation can at time be difficult and time consuming; performance may include the
degree to which a person helps out the groups and his or her colleagues. This might include acting as a good role model, coaching, giving advice or helping maintain group goals (Campbell, 1990). A sense of team work by employee can be of high benefit to its work performance most especially in the area of knowledge and information sharing (Vall & Witt, 2001; Gallie, Zhou, Felstead & Green, 2009). Benders, Huijgen, & Pekruhl, (2001) argued that teamwork enhances job performance through enriched employees knowledge, skills and abilities.

**How to Manage Unethical Behaviour in Organization**

The management of unethical act in the work place is to ensure a workable system that will promote ethical conduct in order to ensure business continuity, survival and good corporate image. Some of the measures are discussed below:

**Leadership**

A number of researches justified the need for ethical leadership as a way to manage unethical act in organizations (Davis & Rothstein, 2006; Walumbwa et al., 2008). Brown et al. (2005) described ethical leadership as “the demonstration of normatively appropriate conduct through personal actions and interpersonal relationships, and the promotion of such conduct to followers through two- way communication, reinforcement, and decision- making”. Thus, to ensure sound ethical practices in organization, ethical leadership must be ensured as finding of Walumbwa et al., (2008) proved that a relationship exist between ethical leadership and employee behaviour. Top managers have power to shape their subordinate behavioural pattern. They have the major responsibility to use their power in such a way that unethical behaviours will be discouraged. Their day to day conduct must be an epitome of high ethical conduct.

**Ethical Climate**

Ethical climate refers to the holistic impression that individuals have regarding ethical policies, practices, and procedures within a unit or organization (Mayer et al., 2010; Victor and Cullen, 1988). Providing ethical climate is the responsibility of all stakeholders in the contemporary work setting. When the climate is ethical people tend to comply without any objection seeing act as norm.

**Openness**

To ensure ethical conduct every individuals must promote openness in operations. Management should promote open culture that can forestall unethical conduct from the top to all rank and files. Within this practice, ethical issues are often raised and dealt with before they get out of hand.

**Ethics Socialization and Training**

It is imperative for organizations to defreeze inherent behaviour of new employees at the point of entry and inculcate acceptable norms and values of the organization. A way to do this is by ethic socialization and training which will help employees know what makes up ethical conduct of the organization.

**Laws and Regulation**

Labour unions, the employers, and government can also aid the management of unethical behaviour of individual workers by setting guidelines in the form of law and regulations for ethical conduct and ensure its implementation. However, every aspect of work behaviour must be covered if not it could lead to burdensome legal processes bogged down in interpretations of the law and debatable grey areas (Sacconi, 2004).

**Stakeholder Priorities**

Increasingly, every stakeholder is motivated to become more ethical because their most important stakeholders expect them to put up good conducts in their dealings. Understanding what causes unethical
practices is important to stakeholders. For instance, customers/consumers are usually the first priority because of the many interrelated business benefits that can be derived from increased consumer/customer satisfaction. Other stakeholders include investors (particularly institutional investors, regulators, academics, and the media).

**Whistle Blower Protection**
Whistle blower is a person who exposes the misdeeds of others in organization in an attempt to preserve ethical standards and protect against wasteful, harmful, or illegal acts. Indeed Whistle blower face the risks of impaired career progress and other forms of work relations but signs indicate that courts have growing support for him, as legal protection can still be adequate.

**Formal Code of Ethics**
This is the official written guidelines on how individual workers must behave in situation prone to create ethical dilemma. The code tries to ensure that individual workers behavior is consistent with the historical and shared norms of the work/job. Organizations can also appoint staff member to serve as ‘ethical advisers’ or create a unit to address such occurrence.

**Importance of Strong Work Ethics in Organizations**

**Keeping to Genuine Performance**
Work ethics afford job holders to discharge his/her duties in a more focused and rational sense without fair or favour. Thus, avoiding sharp practices or unethical conduct which although could favour performance in the short run but avoided to uphold corporate image.

**Adapting to Changing Conditions**
Work is not carried out in isolation but in an environment which is full of uncertainties. The existing conditions at work may change so fast that it becomes difficult to achieve the essence of the work. A detailed code of conduct ‘work ethics’ will no doubt assist job holder to anticipate, monitor and respond to changing conditions.

**Minimizing the Errors**
There is no small error at work as they will accumulate and become big problems which ultimately will affect the job performance. A well guided behavior will anticipate the errors and take preventive steps to avoid errors.

**Coping with work complexity**
An increase in work function may be due to work re-design which can lead to poor performance. In order to meet up with work expectation and exceed it, the code of conduct can assist in performing the task efficiently.

**Minimizing Costs**
Work ethics helps to reduce time wastages on work and reduce cost incurred on work performance. A well guided action will attack all wastages and losses whether in the short or long run.

**CONCLUDING REMARKS**
This discussion has focused on work ethics from the perspective of employees’ job performance. Strong work ethics has been discussed to be capable of creating a long lasting employees job performance while weak worth ethics can only drive for a while but will eventual lead to poor job performance. To attain excellent job performance therefore, it is imperative for employees and organizations to promote good practices in the world of work.
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