



## Situational impacts on leader ethical decision-making

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### ABSTRACT

Leader ethical decision-making has received a great deal of attention in the academic literature. Most research examining ethical leadership has focused on the leader characteristics and subordinate outcomes associated with ethical leadership, but research examining the situational variables influencing leader ethical decision-making is limited. Thus, the purpose of this study was to examine a number of situational variables that may influence leader ethical decision-making. This study examined the impacts of performance pressure, interpersonal conflict, the leader's decision-making autonomy, the type of ethical issue at hand, and the level of authority of the other person involved in the interaction. The results indicated that when making a decision in response to a superior (as opposed to a peer or subordinate), leaders make worse decisions. Additionally, a number of interactions of the other variables negatively impacted leaders' ethical decision-making. The implications of these findings are discussed.

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### 1. Introduction

A number of organizations have been accused of, and even convicted of, criminal behavior resulting from breeches in ethical conduct, including Enron, WorldComm, Tyco, and HealthSouth (Jennings, 1999; McCraw, Moffeit, & O'Malley, 2009; Russell & Smith, 2003). Egregious cases of unethical conduct such as these are particularly salient in the media, because these actions are often intentional, unethical, and even illegal. Because of the threat that unethical business practices can pose to both the business community, industry, and the everyday lives of millions of people (Verschoor, 2006; 2007b), business leaders, and academics alike, have begun work to improve the ethical conduct of members of organizations, both in terms of research examining the mechanisms surrounding ethical behavior and decision-making, and exploring and designing training interventions aimed at improving ethical behavior and decision-making.

In order to address the ethical misconduct occurring in organizations, many look to organizational leaders (McCraw, Moffeit, & O'Malley, 2009). Indeed, Verschoor (2007a) points out that organizational leaders, including CEO's, boards of directors, and other leaders, are largely to blame for organizational ethics scandals. Additionally, findings from the 2007 Deloitte & Touche USA LLP Ethics & Workplace survey indicated that managers and supervisors play a critical role in promoting ethical conduct by all employees. Specifically, survey respondents ranked the behavior of management and direct supervisors as the top two factors involved in promoting an ethical workplace environment (Verschoor, 2007b). Furthermore, Hunter (2008) outlines the role of top organizational management in promoting ethical conduct in organizations. He recommends that organizational leaders take responsibility for promoting an ethical culture by acting as ethical role models for the rest of the organization, as employees often imitate their bosses' behavior. Thus, while it is important for leaders to behave ethically and make ethical decisions, in order to promote ethical behavior and decision-making organization-wide, there are likely to be a number of factors influencing a

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leadership ethical decision-making. The purpose of this study is to examine situational factors that may influence a leader's ethical decision-making.

Because it is apparent that ethical leadership is critically important for the success of organizations, both financially and in terms of general organizational integrity, there has been a great deal of research on ethical leadership. Ethical leadership has been found to be associated with positive affective reactions toward the leader, including perceptions of effectiveness and trustworthiness (Brown & Trevino, 2006; De Hoogh & Den Hartog, 2008), and a number of important outcome variables, including job satisfaction and organizational citizenship behaviors (Brown, Trevino, & Harrison, 2005; Mayer, Kuenzi, Greenbaum, Bardes, & Salvador, 2009).

While there has been much research on what ethical leadership is and how ethical leadership impacts employee and organizational outcomes, there has been much less attention given to situational influences on leader ethical decision-making. Situational influences have been demonstrated to predict ethical decision-making (Mumford et al., 2007b). More specifically, Brown and Trevino (2006) point out that there are a number of situational influences on a leader's ethical decision-making. Indeed, the organizational context creates additional pressures and complexity, influencing the relationship between ethical decision-making and ethical behavior (Trevino & Brown, 2004). Furthermore, leaders are in a unique position in organizations: not only do their decisions and behavior, especially with regard to ethics, set the standard for the decision-making and behavior of their subordinates (Hunter, 2008; Verschoor, 2007b), but a leader's ethical behavior has implications for important subordinate and organizational outcomes (Brown et al., 2005; De Hoogh & Den Hartog, 2008; Mayer et al., 2009).

While there is a dearth of research examining situational variables impacting leader ethical decision-making, theoretical perspectives on destructive leadership and corporate corruption can inform this area of research, by suggesting a number of broad contextual variables that may influence leader ethical decision-making. Mumford et al. (2007a) proposed that, in addition to individual leader characteristics, characteristics of the group, organization, and external environment are likely to contribute to destructive leadership. Indeed, situational characteristics such as perceptions of injustice (Moghaddam, 2005) and a high degree of organizational centralization (Post, Ruby, & Shaw, 2002) have been proposed as contributors to destructive leadership. Furthermore, models of corporate corruption also emphasize the influence of a number of situational factors on (un)ethical decisions and behaviors (Baucus, 1994; Finney & Lesieur, 1982). Specifically, in the prevailing model of corporate corruption, Baucus (1994) suggests that pressure, opportunity, and predisposition, with regard to the organization and the external environment, influence corporate corruption.

Situational variables that impact ethical decision-making are likely to be especially salient in leaders' ethical decision-making, as they strive to make the best decisions possible for their subordinates and organizations. This project examined a number of specific situational variables that are likely to influence a leader's ethical decision-making. Specifically, this study will examine the impact of six situational variables, indicated to be relevant by research in ethical leadership, destructive leadership, and corporate corruption: performance pressure, interpersonal conflict, threats to self-efficacy, decision-making autonomy, type of ethical issue, and level of authority of the people involved.

## 2. Situational variables

### 2.1. Performance pressure

Leaders are likely to experience a great deal of performance pressure in their jobs (Trevino & Brown, 2004), due to their unique position in organizations. Performance pressure has been shown to degrade performance on cognitively demanding tasks (Baumeister, 1984; Beilock & Carr, 2001; Lewis & Linder, 1997), such as ethical decision-making (Mumford et al., 2006). Furthermore, Fiedler and Garcia (1987) note that stress serves to limit the application of complex cognitive processes, thus environmental factors leading to undue pressure are likely to be negatively related to ethical decision-making.

Not only is pressure the leading factor in models of corruption (Baucus, 1994; Finney & Lesieur, 1982), but the relationship between pressure and unethical conduct has been demonstrated in a number of different empirical settings. Jasanoff (1993) performed a qualitative analysis of scientific misconduct, and she found that production pressure, among other environmental variables, was associated with ethical misconduct. Similarly, Goldberg and Greenberg (1994) found that scientific professionals perceived production pressures to be the most important cause of ethical breeches they had observed in the course of their work.

Furthermore, Malhotra, Ku, and Murnigan (2008) suggest that when people in organizations are pressured to "win at all costs", poor ethical decision-making is likely to occur. Finally, Nill, Shibrowsky, and Peltier (2004) found that as competitive pressure increases, students' unethical decision-making increases. It is clear that performance pressure often has a negative impact on cognitively demanding tasks, such as ethical decision-making; thus, the following hypothesis is warranted:

**H1.** High performance pressure, as compared to low performance pressure, on the leader will be associated with poorer ethical decision-making.

### 2.2. Interpersonal conflict

Interpersonal conflict may be another situational variable that impacts the ethicality of a leader's decision (Levenson, 1986). Indeed, Keenan and Newton (1985) found interpersonal conflict to be one of the top stressors on the job. Interpersonal conflict at work has been shown to be related to a number of negative outcomes for employees, including depression, anxiety, frustration,

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