MNO1706 Organizational Behaviour

Lesson 9: Leadership and Organizational Communication

Overview

Leadership is the art of influencing people to act toward achieving a common goal. (Textbook Chapter 11).

Differences Between Leadership and Management

Organizations need both leaders and managers to function effectively and efficiently.

- **Leadership** is concerned with activities such as establishing a direction, aligning individuals' goals with those of the organization, motivating and inspiring people, and changing and rejuvenating the organizational life cycle.

  It is mainly about organizational effectiveness (do the right things) or in the broadest term, creating an organization-environment fit.

- **Management,** by contrast, is concerned with activities such as planning and budgeting, organizing and staffing, controlling and problem solving, and safeguarding predictability and consistency of results.

  It is mainly about organizational efficiency (do the things right) or in the broadest term, housekeeping the organization through maximizing the utility of the limited resources available.

All "effective managers" and "effective leaders" must perform activities that fall under "management" as well as "leadership".

It is not "either/or" but a matter of differential composition of these two types of activities to be done by a particular leader or manager.

Formal Versus Informal Leadership

As discussed in Lesson 8, individuals may wield both positional and personal powers.

They also wield group-level powers and use influence tactics to augment their influence over others.

To the extent that positional powers are officially bestowed on a person based on the job position in the organizational hierarchy and the jobholder wields the powers to get things done through others, a formal leadership is established.

Beyond that, an informal leader may emerge at any organizational level if the individual is able to harness the support of others (i.e., followership) via personal powers, group-level powers, and influence tactics.

When an influential informal leader emerges in a group, the formal leader may face additional challenges and difficulties in mobilizing people to act toward achieving a common goal.

This can be very damaging if the informal leader is dissenting and creates bad influences on other followers to jeopardize the group/organization's goals.

In this situation, it is best for the formal leader to try to deputize the informal leader so that the informal leaders' influences can be harnessed to help achieve the group/organization's goals.

If this is not feasible and the informal leaders create a drag on the group/organization's performance, then it would be necessary for the formal leader to either transfer the informal leader out or take disciplinary action against them.

A disciplinary action can be taken against an informal leader whose actions constitute a counterproductive work behaviour (a form of misconduct), such as encouraging others to start work late.

Also, disobeying the order or instruction from a legitimate boss (a boss with legitimate authority) to, for example, stop telling others to work less hard, would amount to insubordination (a form of misconduct), which can be a basis for dismissal under common law.

Levels of Leadership

There are 4 levels of leadership in a typical organization (Class Reading #42).

- **Political Level:** Top leaders (including the CEO and members of the Board of Directors) address issues relating to the legitimacy of the organization to ensure acceptance by all stakeholders (i.e., anyone with a concern/interest in the organization's business) hailing from all sectors of society.

  For example, Huawei, a leading innovator of 5G network technology, may have to try to allay the fear among government leaders worldwide that the 5G network it produces may be rigged to illegally access sensitive national security information owned by the countries that adopt its 5G platform.

- **Strategic Level:** Senior leaders including the CXOs (C-Suite Executives or people holding a "Chief of Something" title including the CEO) and heads of strategic business units address issues relating to the strategic positioning and corporate strategy of the organization and translate corporate objectives into business objectives.

For example, a computer network technology services firm decides to invest billions of US dollars in the next-generation 5G network platform that can be deployed across all countries worldwide, drastically reducing the time it takes to communicate with wireless networks.

- **Operational Level:** Middle-level leaders including department/functional heads address issues relating to the efficient use of functional resources (e.g., R&D, HR, finance, marketing, production, etc.) to attain business objectives.

  For example, the R&D Department of a 5G network developer recruits, onboards, and trains several hundred new programmers to hammer out the basic platform for 5G connections.

- **Tactical Level:** Supervisors address issues relating to the attainment of sub-goals derived from the overall business objectives of the strategic business unit through harnessing the work activities of rank-and-file employees (those with no subordinates under them).

  For example, the leader of a 5G development team galvanize a team of programmers to brainstorm for the design of a specific 5G feature (such as time display) based on the leader's understanding of the R&D Department's requirements.

Approaches to Understanding Leadership

Over the past decades, researchers have explored numerous ways to understand leadership, namely: (Textbook Chapter 11)

- **Traits Approach:**

  - This approach tries to link enduring personal characteristics/traits to effective leadership.

  - In general, surface personal characteristics (e.g., height) have been found to have no link or only a weak link with leadership effectiveness.

  - Deep-level characteristics (e.g., emotional intelligence (EI or EQ), intelligence (IQ), drive, motivation, honesty, integrity, self-confidence, knowledge, and charisma) have been found to have a stronger link with leadership effectiveness.

- **Behavioural Approaches:**

  - This approach tries to classify what the leader does in terms of job-centred versus employee-centred behaviour, consideration (feelings and respect for employees) versus initiating structure behaviour (job role clarity), and concern-for-people versus concern-for-production behaviour.

  - In general, a high-high score on these pairs of dimensions of leadership behaviour is believed to work best most of the time.

- **Situational Leadership Approach:**
    - This approach proposes that what work best for a leader depends on the situation.
    - Situational factors that can be factored into this postulation include:
        - Manager's personal and work values, confidence in subordinates, personal inclination, and feelings of security.
        - Subordinates' need for independence, readiness to assume responsibility, tolerance for ambiguity, interest in the problem, understanding of goals, knowledge, experience, and expectations.
        - Context of decision-making such as the type of organization, group characteristics, the problem on hand, and time pressure.
    - The leader may choose from a wide variety of behavioural options, from top-down decision-making to autonomous decision-making by subordinates.
    - Within this research approach, several well-known theories have been proposed, including:
        - **LPC (Least Preferred Co-worker) Theory:**
            - ❖ Leaders who are critical of a co-worker that they dislike are considered task-oriented (low LPC score); else, they are taken as people-centred (high LPC score).
            - ❖ Task-oriented leadership is better when the situation is highly favourable (cordial leader-member relations, structured task on hand, and high leader positional power) or highly unfavourable (soured leader-member relations, unstructured task on hand, and low leader positional power).
            - ❖ People-centred leadership is better when the situation is moderately favourable.
            - ❖ It is usually very hard to change a leader's leadership style/orientation (LPC score), so decision makers should change the situation to suit the leader or relocate the leader to a situation that suits the leader.
        - **Path-Goal Theory:**
            - ❖ Choose from directive, supportive, participative, and achievement-oriented leadership behaviours based on:

- Subordinates' characteristics such as:
  - Locus of control (be directive when the subordinates are externals); and
  - Self-perceived ability (self-efficacy) (be less directive when the subordinates believe they are capable).
- Environmental conditions such as:
  - Task structure (be less directive when the task is structured);
  - Authority system (be directive when a lot of authority is on hand); and
  - Work group support (can be less supportive if there is a lot of social support within the group).

- **Vroom's Decision Tree Approach:**
  - Choose from decide, delegate, consult (individually), consult (group), and facilitate depending on:
    - **Decision significance** (use top-down if this is low);
    - **Importance of employee commitment** (use top-down if this is low);
    - **Leader expertise** (use top-down if this is high);
    - **Problem structure** (use top-down if this is high);
    - **Team support** (use top-down if this is high);
    - **Team aligned with organizational goals** (use top-down if this is low); &
    - **Team conflict likelihood** (use top-down if this is low).
  - The exact weightage given to each situational factor and how each situational factor is linked (positively or negatively) to the preferred leadership style seem to be intractable.

- **Contemporary Leadership Approaches**: (Textbook Chapter 12)

- **Leader-Member Exchange Theory:** Leaders tend to split followers or team members into in-group (more valued; do more critical tasks) versus out-group (less valued; do more mundane tasks).

  This is unavoidable because different subordinates perform differently on the job.

- **Hersey and Blanchard Model:**

  - Leaders can be less involved (low task- and low relationship-oriented) when subordinate readiness to perform is high.

  - Leaders should be task-oriented when subordinate readiness to perform is low.

  - Leaders should be relationship-oriented when subordinate readiness to perform is moderate.

- **Transactional Leadership:** Reward when employees perform well; punish when they perform badly.

  This can be used when only routine, regimented activities are involved.

- **Transformational Leadership:** Based on the leader's ability to recognize the need for change, create a vision to guide the change, and execute the change through internal transformation of the follower.

  For example, tell the subordinate: "This is the way to go. You can do it."

- **Charismatic Leadership:** Inspire support and acceptance in followers based on the leader's personal charisma (referent power).

  For example, tell the subordinate: "Trust me. You can do it."

- **Leadership Attribution Theory:** This approach proposes that leadership is a form of self-fulfilling prophecy: we see leadership in leaders because we want to believe that they have leadership qualities and leadership qualities can be used as a convenient tool to explain their success.

  In other words, from the "romanticised perspective" of leadership, leaders with leadership qualities are just a tool we use to "make sense of our workplaces and complex organisational arrangements".

- **Leadership Substitutes versus Neutralizers:**

  - **Leadership substitutes** are individual, task, and organizational factors that make leadership redundant in a given situation (we can get things done even without a leader).

For example, self-driven and experienced employees doing routine tasks (such as the cabin crew of a passenger airline working on a flight) would not need a leader to be around when they do the work.

- **Leadership neutralizers** are factors that render a leader's attempts to influence ineffective in a given situation (i.e., the leaders can't get things done effectively no matter how hard they try).

  For example, regardless of how task- and relationship-oriented the leader is, employees would not be willing to put in more effort if the organization failed to honour its promise of paying them a bonus even though the organization made a profit last year.

Organizational Communication

Communication refers to the transmission of information from one person to another to create a shared understanding and feeling. (Textbook Chapter 9).

To influence others to get a piece of work done, leaders must communicate their intention effectively.

Similarly, people in non-leadership positions must also have effective communication skills so that they can communicate effectively with fellow team members, bosses, customers, and others.

Effective communication is necessary when task interdependence between 2 or more people exists and they depend on each other for info and other resources to get the work done.

Communication Process

- The communication process starts when the sender has ***a thought, idea, or fact for transmission*** (e.g., to call a meeting).

- The sender then goes on to ***encode*** it in a ***message*** (e.g., form sentences in one's own mind and type out an email to invite participants to the meeting).

- The message is then transmitted through a ***channel*** (e.g., an Internet email exchange service).

- The receiver then receives and ***decodes/interprets*** the message.

- When the receiver has a reply to the message (e.g., accept/reject the meeting invitation), the receiver would ***feedback*** to the sender.

Throughout the above process, ***noises and communication barriers*** may emerge that block, distort, or change the intended message. For example:

- The email exchange service may be down temporarily or the email may be corrupted with viruses;
- The sender may choose/type the wrong word in the encoding process;
- The receiver may decode the message wrongly, selectively screen out parts of the message, or misinterpret the message due to idiosyncratic interests, expectations, experiences, and attitudes;
- Informational overload (e.g., too many emails to read) may disrupt the receiver's mental process (cognition);
- Cross-cultural differences (e.g., different cultural norms across regions/countries) may result in wrong interpretations of the message; and
- Organizational structure/culture (e.g., a secretive corporate culture, a "need-to-know-only" rule of communication) may also create barriers to effective communication.

The most direct and effective way to ensure that the correct message has reached the sender is for the sender to check back with (or obtain feedback from) the receiver on what the received has received and understood from the sender.

Two-way communication is thus better than one-way communication.

In addition, do note than communication may be nonverbal in nature, such as through our body language (hand gestures, body postures, facial expressions, head movements, etc.) and verbal intonation (e.g., raise your voice to communicate anger).

The sender may intentionally or unintentionally send out non-verbal cues that distort the intended message.

This is further complicated by the receiver's misinterpreting or screening out nonverbal cues at times.

<u>Channel Richness</u>

The channels that can be used by the sender to transmit a message vary in terms of channel richness.

Channel richness can be measured by the levels of:

(a) **Interactivity/immediacy** of feedback;

(b) **Variety of cues** transmitted;

(c) **Variety of verbal expressions** that can be encoded (language variety); and

(d) **Fidelity of emotional expressions** (how accurate an emotion can be conveyed).

Some examples of channels in descending order of channel richness are:

- Face-to-Face Oral Communication
- Videoconferencing
- Telephone
- Instant Messaging
- Email
- Personal Written Correspondence
- Formal Written Correspondence

In general, a richer channel is preferred when a richer interaction/discourse is needed.

Channels of lower richness (e.g., Instant Messaging, Email, Personal Written Correspondence, Formal Written Correspondence) are still relevant for today's Internet world because they allow the user to keep a record of the message for future reference.

Applications and Practical Considerations

What do chickens do when no one is watching?

Informational Asymmetry Between a Leader and a Follower

Leadership is about getting work done through others.

Yet, in a typical work setting, the leader gives an order and the subordinate does the actual legwork to deliver the output.

Essentially, the leader is a principal who entrusts a task with an agent (the employee/follower). (Class Reading #43)

In this process, an information asymmetry arises because while the subordinate knows exactly (and is in control of) how much effort they want to put into the work, the leader cannot stay with the subordinate and watch over the subordinate's shoulders throughout the entire work process due to cost and psychological considerations.

The informational asymmetry in a principal-agent relationship takes place at all levels of an organization, including between the Board of Directors and the CEO, between the CEO and the fellow CXOs (Chief HR Officer, Chief Marketing Officer, Chief Finance Officer, Chief R&D/Engineering Officer, etc.), between the CXOs and their heads of strategic business units and department heads, between the department heads and their supervisors, and between the supervisors and their rank-and-file direct reports (rank-and-file employees are employees who have no subordinates under them).

Moral Hazard

In economics, it is a well-known fact that human beings have self-interests at heart and typically, we would put our self-interests before others', other things being equal.

Hence, when an informational asymmetry between the principal and the agent arises and the interests of the principal and the agent are not compatible, there is a real chance that the agent will act in self-interest at the expense of the principal's, going against the principal's original intention of entrusting the task with the agent to attain the principal's own goals.

This is called moral hazard.

Moral hazard is a leadership neutralizer, even if result-based control measures are put in place.

For example, the Board of Directors of a bank would appoint a CEO to run the bank and make money for the bank.

Yet, in all business decisions there are risks and by the efficient market hypothesis, a higher financial return must come with a higher level of risk.

While the Board of Directors would expect maximum returns at a reasonable level of risk, the CEO may try to maximize their personal income by taking the maximum level of risk possible because it is typical that in the CEO compensation package, the CEO's pay/bonuses are linked to the employer's (in this case, the bank's) financial returns.

If a high-risk position is taken and the bank fails, it's the shareholders of the bank who would lose their equity capital and the CEO may escape unscathed because the CEO is an employee hired to run the bank and is not required to buy a personal equity stake in the company (the bank).

This scenario is commonplace and it was the main driving force that precipitated in the 2008/9 global financial crisis (Class Reading #44a).

At lower organizational levels, similar opportunistic behaviours resulting from moral hazard can also be found easily.

For example, a car salesperson may be paid on a commission basis (management by results or variable rewards as advocated by the Reinforcement Theory; see Lesson 4).

Yet, the leader cannot be sure that the car salesperson would not use unscrupulous tactics behind the leader's back - such as using high-pressure sales techniques or misleading customers into buy a car - to generate more sales.

Such unscrupulous tactics would hurt the company's image and reputation in the long run.

How to Mitigate Moral Hazard (a Leadership Neutralizer) Between Leaders and Followers?

Practitioners have considered numerous ways to address the issues of moral hazard between a principal (leader) and an agent (follower) but some of them may have limited effects.

1. **Align the Interests of the Agent with Those of the Principal**

    a. **Requiring the CEO (or any employee) to own an equity share in the company:**

        This is usually outlawed by labour laws because the employer may exploit the employee by selling the share to the employee at exorbitant prices.

    b. **Use an employee stock ownership reward scheme to award shares in the company to high-performing or key employees (e.g., the CEO), so that the CEO/key employee is also a shareholder in the company:**

        This comes as part of the job, so the CEO, key, or high-performing employee is not likely to feel the pain even if they lose it when the company fails unless the amount is huge.

    c. **Spread the declared bonuses over several (say, 5) years and if the current company performance cannot be sustained over the longer run, then the unpaid bonuses will be clawed back:**

        The CEO or key employee may not like this and if any other competing companies do not set and enforce the same employment condition, the best talented employee or CEO would jump ship and join the competitor.

        This may be less of a concern if laws are enacted to make the claw-back clause compulsory.

        But talented CEOs or key employees may still go overseas to work in countries where no such laws exist. (Class Reading #44b)

    d. **Specify the types and levels of risk or projects that the CEO or key employee may undertake for the company:**

This will greatly limit the opportunities available to the company because constant environmental changes mean no one can foresee the types and levels of worthwhile risk in advance.

Also, the CEO or key employee may find such restrictions draconian and leave to join a competing firm that does not impose such conditions.

2. Common & Statutory Laws of Fiduciary Duty & Common Law Tort of Negligence

As discussed in Lesson 8 about how abuse of power can be curtailed by common and statutory laws, the moral hazard between leaders and followers can also be mitigated by the same laws.

For example, not too long ago, eight town councillors of a public housing estate in Singapore were taken to task by the court in a civil suit (under common law of fiduciary duty) for failing to exercise due diligence in running the affairs of the town council that was entrusted to them by the electorates.

They were found liable by the High Court under common law tort of negligence (instead of common law of fiduciary duty) for the financial losses caused to their "principal" (the town council itself).

The Companies Act of Singapore lists a set of statutory fiduciary duties that company directors (the "agents") owe to the company (the "principal"), such as not holding key positions in two competing firms unless approval has been granted by the Board of Directors. (Class Reading #44c)

3. Investments in Behavioural Monitoring

Although the leader may not be able to personally monitor the work behaviour of the follower continuously across all organizational levels due to cost and psychological considerations, there are ways in which the leader may be able to mitigate the informational asymmetry problem, such as:

a. <u>Whistle Blowing Policy:</u>

Many companies nowadays have an explicit policy of protecting the job security of (or even rewarding) any employees who report any illegal/unethical acts committed by anyone in the company (e.g., Keppel Corporation).

This is a good practice and should be encouraged because it is hard for an "agent" to get away without getting caught by the "principal" when there are many pairs of eyes watching what everyone is doing in the company.

Most of the time, an anonymous typewritten letter of complaint can be taken seriously by management.

b. Open Door Policy:

Many companies have also adopted the open-door policy, where subordinates at any organizational levels can give feedback to or seek to have an audience with bosses at any organizational levels including the CEO.

This is a good practice because any employees can tell the right person in the right position about what a "rogue agent" has done.

Sheng Siong Supermarket in Singapore, for example, has this policy.

c. Electronic Monitoring:

With the advancement of technology, many companies have turned to electronic monitoring to detect unwanted employee behaviours.

i. When employees use electronic equipment/facilities (e.g., email account, laptop, desktop, mobile phone, tablet, etc.) provided or made available by their employer to carry out their work activities, the employer has the right to check how the equipment/facilities are used under common law of property rights.

   Hence, employers may uncover actionable infractions committed by the "rogue agent" through regular electronic monitoring.

ii. When the electronic equipment/facilities are not owned by or registered in the employer's name (such as when the employer pays a sum of money to employees and asks them to buy a desktop in their own name to carry out work activities), it may be tricky because under the Computer Misuse Act (Class Reading #45a), the employer would not be allowed to check the employee's personal equipment without the permission of the employee owner (i.e., the "agent" in question).

iii. Regardless of who owns the electronic equipment/facilities, if an employee uses the electronic equipment/facilities or other non-electronic means to commit a criminal act, the employee may be prosecuted under the relevant law, such as:

   - **Computer Misuse Act** (e.g., hack into other people's electronic equipment/facilities);
   - **Defamation Act** (e.g., send out or post defamatory articles);
   - **Films Act** (e.g., store pornographic materials); and
   - **Personal Data Protection Act** (e.g. collect and store personal data without obtaining the consent of the individual concerned) (Class Reading #45b).

The employer or leader (i.e., the “principal”) is entitled to take disciplinary action against the “rogue agent” if the latter is found guilty of a criminal act.

iv. Some employers are tempted to use electronic equipment/facilities to video record employee behaviours so as to pinpoint the “rogue agents” who have committed undesirable acts.

- For example, a construction company provides lodging services including water supply to its workers but the workers abuse the lodging services and waste a lot of water.

  Can the employer use video cameras at the bathing/washing area to video record wasteful employees in the act?

- In another example, a university wants to ensure that its instructors teach their students diligently.

  Can the university use video cameras to record the instructors’ behaviours during their lessons?

In both instances, the employee may claim protection under the common law doctrine of privacy (anyone has the right to be left alone). (Class Reading #45c).

- For example, a construction worker may not want to be filmed half-naked in the bathing/washing area.

- Some instructors may not want to be filmed because they have a lot of acnes on their faces.

Fortunately or unfortunately, the line between privacy and legitimate behaviour monitoring can only be drawn on a case-by-case basis.

In the former case (construction workers), the verdict would probably be “yes, allowed to monitor” if the cameras are trained to capture only workers’ behaviours outside the bathing area (because the workers can always put on their clothes before coming out of the bathing area).

In the latter, it would probably be “no, cannot force video recording on the instructors” because the instructors may wish to express their own sensitive views as an academic to enrich students’ perspectives and such views may be misinterpreted if they are recorded and leaked outside the academic setting.

d. <u>Private Detective Services:</u>

At times, some employers may resort to engaging the services of private detectives to monitor their employees’ work and non-work behaviours.

Managers need to ensure that only properly registered private detectives are engaged.

Most of the information collected via this mean can be used for reference purposes only and cannot be used as evidence in a court of law because the detectives would need to ensure that such info is collected without infringing on such laws as the Computer Misuse Act, Films Act, Penal Code, Personal Data Protection Act, and others.

4. **Activist Investors, Short Sellers, and Hedge Funds**

At times, the Board of Directors (principal) may not be able to detect and correct the deficiencies in its CEO's (the agent) actions/inactions and the CEO (principal) may not be able to do the same with their CXOs (those who hold the title of "Chief of Something" and report to the CEO) and heads of strategic business units.

This may result in an unduly depressed stock price for the company.

- Fortunately, some "activist investors" may proactively detect and raise the CXOs' (agents) deficiencies to the attention of their Board of Directors and other shareholders by speaking up at the annual general meeting and acquiring a voting seat on the Board itself.

- In addition, some short-sellers may actively analyse the financial data and management actions of a company and launch at attack on the company's stock when they find that the Board of Directors and CXOs (including the CEO) of the company are not performing effectively to maximize shareholders' wealth at a reasonable level of risk.

- Lastly, some hedge funds may take action to signal their assessment of the company's state of management because they typically hold a significant percentage of the company's voting shares on behalf of investors and may hold seats on the Board of Directors.

All the above-mentioned three groups of market participants thus may help to reduce the problems associated with moral hazard across companies somewhat.

However, because of their for-profit motives, their actions are sometimes called into question by ethicists.

Conclusion

In sum, moral hazard is a potential leadership neutralizer that may render a leader's attempts to attain organizational goals ineffective and this issue should be addressed by all decision makers at all organizational levels on a continuous basis.