

2 Literature Review

This chapter reviews the literature on specific attitudes which can be related to the issues of social stratification and social reproduction. Attitudes have long been playing a major role in organization research. Different types of attitudes such as job attitudes, customer attitudes, or managerial attitudes have been researched from different perspectives. According to Brief (1998), job satisfaction tops the list of the most researched attitudes in the context of organizations. The present thesis focuses on managerial attitudes. There is a broad stream of research linking attitudes to actions-related outcomes. In the case of managerial attitudes, especially works related to the upper-echelon theory (Hambrick & Mason, 1984) can help to understand how the attitudes of managers can have an impact on the organizations. Although not strictly following the perspective of the upper-echelon theory, Lewin & Stephens (1994) also suggest a link between the attitudes of organizational leaders and attributes of organizational design. It should be mentioned here that there is an on-going discussion about the processes through which individual-based managers' attributes such as attitudes and beliefs influence organizational outcomes (see for instance Hodgkinson & Healey, 2007; Boal, 2000; and Markóczy, 1997). This thesis does not intend to take part in that discussion. All it does in that perspective is to assume the importance of managerial attitudes for organizations, whether it be related to factors such as organizational culture, organizational performance, or any kind of organizational processes and outcomes.

2.1 Managerial attitudes and the recent crisis

The literature on managerial attitudes shows us that there are a number of managerial attitudes which can have an impact in and on organizations. Those are, for example, attitudes toward corporate social responsibility and environmental protection, risk attitudes, justice-related attitudes, and self-related attitudes such as locus of control, core self-evaluations, or self-efficacy. Going back to the initial argument of the thesis, the question to be asked is how specific managerial attitudes can be related to the societal structures of Western capitalist societies or even to the recent macroeconomic turmoil experienced by those societies.

There is extended support for the idea that the recent crisis has its roots in the US-American mortgage market, especially in the subsector of subprime mortgages.

Following the related 2008 collapse of the US-American financial firm Lehman Brothers and the subsequent meltdown of the global financial system, much has been discussed about risk-related attitudes and behaviors of banks' top employees. As response to that, national and supranational organizations from both sides of the Atlantic Ocean have designed and implemented measures targeted at monitoring the risk behaviors of those individuals operating in the banking sector (see for instance Murphy (2013) for an account of the post-crisis banking regulation in the European Union). Following public debates about the role of top managers in the recent crisis, it becomes however clear that not only the banking sector is concerned by excessive risk taking. The debate can actually be extended to the broader economic elite. Hence, in the context of the recent crisis scholars have written about the risk attitudes and behavior of those individuals at the upper echelons of Western economies (e.g. Lewellyn & Muller-Kahle, 2012).

A further attitudinal aspect being discussed in the context of the recent crisis involved the belief of managerial elites in their own capabilities. The salaried intelligentsia, i.e. academic scholars and business journalists (Williams, 2013), have discussed that some aspects of the crisis might be explained by self-related attitudes of top managers. Self-related attitudes are for instance (over)confidence, locus of control, self-efficacy, or the more recent core self-evaluations. In this context, Lunn (2013) argues that the overconfidence of actors in the financial field can help to explain the Irish banking crisis. This argument can be linked to the academic discussion on the role of managers' overconfidence, which is in turn related to issues of self-efficacy (Stone, 1994). The present thesis focuses on the idea of locus of control since its basic tenets are to be found in the mentioned belief in one's own capabilities. Moreover, locus of control seems to have been more extensively studied by scholars of organizations than the related variables such as self-esteem or self-efficacy. Even if termed 'sense of control' in the present thesis, the concept used here can be directly traced back to Rotter's (1966) locus of control. The term 'sense of control' has already been used in the literature as a synonym to locus of control, for instance by Pedersen et al. (1989). Likewise, Murray-Gibbons & Gibbons (2007) use 'having a strong sense of control' as a synonym to 'having an internal locus of control'.

Another stream of the discussion on the role of the top managers in the developments leading to the Great Recession is linked to issues of other-centered

concerns such as empathy or fairness. For instance, some commentators have argued that due to a disconnectedness to broader classes, the economic elite might not fully be capable of understanding or feeling the problems or the needs of those broader classes. The German newspaper *Süddeutsche Zeitung* suggests, for example, that the empathy of individuals at the upper echelons of major banks is adversely affected by the fact that they form such a distinct social group (Schmitz, 2013). Similarly, Hirn & Müller (2012) discuss the issue of the disconnectedness of the German corporate elite from the broader classes. Hirn & Müller (2012) point to potentially strong divergences between the corporate elite and the rest of the society in the way they live, feel, think, and act. This argument can be linked on a broader level to the academic literature on managers' justice perceptions.

In the light of the aforementioned, this chapter reviews the literature on the risk attitudes, sense of control, and justice perceptions of organizational leaders. There are hints in the literature that those attitudes might be particularly relevant in the managerial context. For instance, the attitudes toward risks and control are among those attitudes which Lewin & Stephens (1994) deem important for organization design. In this vein, they postulate that organizational leaders with low risk propensity will “tend to implement centralized organization designs characterized by high control intensity and supervision”, whereas leaders with strong sense of control “are likely to believe in the concept of strategy, engage in strategic planning (...) and restructure their organizations to fit the contingencies of their chosen strategies” (Lewin & Stephens, 1994: 195 & 197). Although they do not explicitly mention justice perceptions, these can be related to the issue of egalitarianism, the third of the eight attitudes they discuss.¹ While reviewing the literature on the risk attitudes, sense of control, and justice perceptions of organizational leaders, I will proceed in two steps. The first step consists in reviewing the effects of the three variables of interest. This should highlight the relevance of those variables for both management research and practice. The second part of the chapter deals with the antecedents of the dependent variables. The aim here is to locate the contribution that could be made by focusing on socioeconomic background as explaining factor.

¹ The eight attitudes discussed by Lewin and Stephens (1994) are need for achievement, machiavellianism, egalitarianism, trust in people, tolerance for ambiguity, locus of control, risk propensity, and cognitive moral development.

2.2 Dependent variables – Effects

This section reviews the literature on the effects of risk attitudes, sense of control, and justice perceptions. Whenever possible, studies conducted in a top management context are used. For ensuring and stressing the relevance of the quoted studies for the thesis, contextual information about the studies reviewed are provided.

2.2.1 Risk propensity

Following Gummer (1986: 100), an “important feature of modern organizations is the degree of uncertainty and indeterminacy surrounding their operations.” In an uncertain world, decision making is mostly influenced by the subjects’ willingness to undertake risky behaviors or not, i.e. by their risk propensity. Uhlig, Solga, & Schupp (2009) note that there is an increasing importance of risk-related attitudes for explaining education and job-related decisions. This is even more relevant in an organizational context since top managers’ risk propensity can be considered as “the underlying phenomenon that drives a firm’s level of risk” (Gilley et al., 2002: 98). According to Sitkin & Pablo (1992: 11–12), there are three main factors influencing risky behavior: individual, organizational, and situational characteristics. Risk propensity therefore belongs to the individual-level characteristics of factors influencing actors to engage or not in risky behaviors. In the same work, Sitkin & Pablo describe risk propensity “as the tendency of a decision maker either to take or to avoid risks” (Sitkin & Pablo, 1992: 12) or “the general likelihood of a person’s behaving in more or less risky ways” (Sitkin & Pablo, 1992: 15). Similarly, risk propensity is understood in this thesis as the willingness to undertake a specific course of action associated with an uncertain and relevant outcome. The argument that risk perception operates within boundaries set by risk propensity shows the importance of the risk-propensity construct (Sitkin & Pablo, 1992: 29). Das & Teng (2001: 518) stress it further by stating that “[a]lthough a risk seeking propensity does not automatically result in high-risk behaviour, risk propensity is probably the single most important attribute that contributes to risk behavior”. Several scholars have empirically shown that the risk propensity of managers can help to explain some organizational level outcomes.

In a survey of the relationships between attitudes of organizational leaders and

corporate actions, Graham et al. (2013: 114) report that risk-tolerant CEOs tend to increase the M&A-activities of their companies by undertaking more acquisitions. They further report that there is a matching between the risk aversion of CEOs and the compensation packages offered by firms (Graham et al., 2013). Another study focusing on the risk propensity of CEOs has been conducted by Nadkarni & Herrmann (2010). They investigate the relationships between CEO personality and firm-level outcomes such as strategic flexibility and firm performance in the Indian business process outsourcing industry. Even if they do not have a hypothesis on risk propensity, they theorize that “[p]sychological attributes such as risk propensity and need for control may influence whether CEOs interpret specific environmental changes as threats or as opportunities and which strategic responses they prefer” (Nadkarni & Herrmann, 2010: 1053).

Using an alternative measure of risk propensity, Cain & McKeon (2014) also report a relationship between managerial risk-taking propensity and organizational outcome. Grounding on the idea of behavioral consistency, they find that managers who privately engage in a risky activity like piloting an aircraft lead to higher firm’s return volatility as measured by an increase of mergers and acquisitions activities. This result therefore supports their argument that behavioral patterns managers exhibit in non-work contexts are consistent to the behavioral patterns they exhibit as managers in the firms (Cain & McKeon, 2014).

Gilley et al. (2002) further report significant relationships between the risk taking propensity of the top management team and firm performance. Their study uses a sample of US-American manufacturing firms; the risk propensity is measured through a six-item scale whose items are found to load on two distinct factors, one measuring a general risk taking propensity and the other a risk taking propensity related to products and processes. The findings by Gilley et al. (2002) suggest, on the one hand, that the general risk taking propensity of the top management team is associated with a higher firm performance with respect to innovation. On the other hand, risk taking propensity related to processes and products is found to be positively linked not only to innovation, but also to further facets of financial and non-financial firm performance. Furthermore, Gilley et al. (2002) test whether the relationship between top managers risk propensity and firm performance is moderated by environmental dynamism and find only moderate and inconclusive support for the moderation hypothesis. The positive relationship

between the risk propensity of the top management team and organizational performance is attributed to the competitive advantage resulting from risk prone top managers engaging in “behaviors that lead to process enhancements, highly competitive new products or services, [and] innovative marketing techniques” (Gilley et al., 2002: 99).

On the methodological side of the discussion on the effects of executives’ risk attitudes, MacCrimmon & Wehrung (1990), for instance, argue that risk propensity is too complex to be adequately captured by a single measure, even though, as reported, many studies published in well-renown outlets do use this strategy.

Overall, the cited works show that the risk-related attitudes of leaders are a way to understand organizational outcomes. Although as shown above, focusing on individuals’ risk propensity can yield meaningful insights, there is a debate on the meaningfulness and validity of leaders’ risk propensity. In a research based on data collected in Greek companies through a multi-method approach, i.e. interviews, questionnaire-based surveys, and archival sources about the importance of CEOs and top managers for the process of making strategic decisions, Papadakis & Barwise (2002: 87) report that the CEO’s risk propensity “seems to have no measurable influence” on the process of strategic decision making. However, they report a statistically significant correlation between the CEO’s risk propensity and the competitive aggressiveness of the top management team (Papadakis & Barwise, 2002). Nevertheless, their results run against a significant number of empirical findings as those reported in this section showing a link between the risk propensity of organizational leaders and organizationally relevant outcomes. Hence, this thesis follows the reported works which demonstrate the relevance of leaders’ risk propensity for organizational outcomes.

2.2.2 Sense of control

The second dependent variable of this study, sense of control, has also been demonstrated to be related to managerial outcomes (Elkins & Cochran, 1978). Sense of control describes to what extent individuals believe that they can control their own life. The idea of sense of control is typically a variable researched by scholars of the fields of psychology and social psychology such as Rotter (1966) and Lerner & Reavy (1975).

However, there are some works displaying the relevance of sense of control for management studies. A range of works shows that a high sense of control is empirically associated to entrepreneurial tendencies. In this vein, Caliendo, Fossen, & Kritikos (2014) report that individuals with a more internal and less external locus of control, i.e. with a higher sense of control, display a higher probability of entering in self-employment. Their study is based on the analysis of data taken from the German Socioeconomic Panel, a large representative survey of the population in Germany. Much earlier, Evans & Leighton (1989), for instance, have reported a similar finding based on US-American data. Considering the importance which entrepreneurial managers have for companies (see for instance Perks & Hughes (2008) for a study of the effects of entrepreneurial decision-making on firm internationalization), the reported findings on the relationship between sense of control and entrepreneurial tendencies suggest a high relevance of sense of control for organizations.

A related range of works reports relationships between sense of control and organization-level outcomes such as organizational risk, innovation or strategic choice. In a survey of top managers in 33 Canadian firms, Miller, Vries, & Toulouse (1982) find that internal executives, i.e. those with a high sense of control, tend to be associated with more organizational risk taking. Boone, Brabander, & van Witteloostuijn (1996) study a sample of 40 CEOs of Belgian companies and find for instance that CEOs with a higher sense of control are more likely than those with a lower sense of control to follow a differentiation strategy. This corroborates earlier findings also presented by Miller et al. (1982) who report that organizations run by executives with a strong sense of control tend to engage more often in product-market innovations.

The early leadership literature also features accounts of the effects of sense of control on organizationally relevant variables. Mitchell, Smyser, & Weed (1975) conduct a study of locus of control on 900 employees of an US-American public utility. They report, for example, that employees with a stronger sense of control have a higher job satisfaction and are likewise more satisfied with a participatory management style of their supervisor than their counterparts with a weaker sense of control. Howell & Avolio (1993) study 78 leaders and 322 leadership subjects in a large Canadian financial institution and report, among other findings, that leaders with a strong sense of control tend to exhibit more transformational-leadership behaviors. In the same vein, Kinicki & Vecchio (1994) report a significant positive relationship between the sense of control of

employees and the quality of the leader-member exchange, i.e. the quality of the supervisor-subordinate relations. In their meta-analyses of the relationships between locus of control and various job-related outcomes, Judge & Bono (2001), Ng, Sorensen, & Eby (2006) and Ng et al. (2005) find that a strong sense of control is positively related to favorable job outcomes such as job satisfaction, job motivation, or job performance.

Several research pieces suggest a link between sense of control and the ethical tendencies of individuals. Surveying a sample of 201 business students of an US-American university through a vignette-based approach, Terpstra et al. (1993: 383) find that individuals “with an external locus of control were more apt to engage in insider trading than those with an internal locus of control.” This finding therefore suggests that individuals with a high sense of control could be less likely to engage in an unethical behavior such as insider trading. Similarly, Hegarty & Sims (1978) report, surveying a student sample in an experimental setting, that external individuals are less ethical than internals. According to Trevino (1986), these findings could be explained by the higher reliance of individuals with lower sense of control to external factors. The higher reliance on external factors leads to a lower consistency between moral judgment and moral action (Trevino, 1986). This contended reliance of individuals with lower sense of control on external factors is in line with Cherry & Fraedrich (2000) who examine how control orientations can help to predict the moral reasoning of managers and its impact on ethical decision-making. They use a self-administered questionnaire sent to a sample of 375 sales managers in the USA to find several relationships between the control orientation of the managers and their moral reasoning concerning bribery. Consistently with the aforementioned studies, they report that externally controlled managers, i.e. those with a lower sense of control, are more teleological in their moral reasoning than their counterparts with a high sense of control. More specifically, while “making their ethical judgments and forming behavioral intentions toward the illicit payment”, managers with a lower sense of control “attached more importance to the consequences of bribery than internally-oriented sales managers” (Cherry & Fraedrich, 2000: 180). Managers with a lower sense of control therefore assess the correctness of a decision based on situational, i.e. external, characteristics, whereas those with a higher sense of control are more deontological, basing their assessment of the situation on the intrinsic properties of bribery and not on its situational consequences (Cherry & Fraedrich, 2000).

Recalling that individuals with a lower sense of control are those who are more likely to attribute events affecting their life to external factors such as luck or powerful others, the arguments on the lower ethicality associated with lower sense of control can be traced back to the writings of Thorstein Veblen. In the eleventh chapter of his seminal “Theory of the Leisure Class”, Veblen (1899/2007) characterizes the belief in luck as something pertaining to a barbarian and undifferentiated state of human nature. It is obvious that such a state of human nature cannot be associated with high level of ethicality since the idea of the collective does not have much of a worth in a world made up by individuals “predatorily” pursuing their own interests. As stated by Veblen (1899/2007: 180), the belief in luck is “more or less of a hindrance to the fullest efficiency of the collective economic life of the present.” Considering Veblen’s idea, we can hence better apprehend the positive link between ethicality and sense of control as discussed in the literature.

Additionally to the aforementioned studies on the effects of sense of control, that is sense of control as explanatory variables, it should not be overlooked that sense of control has a history of being researched as a moderator or mediating variable. For instance, Brownell (1981) finds in an experimental setting that the control orientation of employees moderates the relationship between participation and performance, with budgetary participation having a positive effect on individuals with a stronger sense of control while having a negative effect on those with a weaker one. Ng & Butts (2009) further report, surveying a sample of 190 employees in an US-American company, the relevance of sense of control as moderator between HR practices designed for improving organizational commitment and employee retention. A case of sense of control as mediating variable is to be found in the experimental study by Kraus, Piff, & Keltner (2009), who report among other findings that the sense of control mediates the relation between subjective socioeconomic status and contextual explanations of economic inequality.

To sum up, we can observe that the sense of control of organizational members has important direct as well as indirect effects on variables of interest for organizations. Especially the sense of control of organizational leaders is revealed to be of particular relevance since it affects factors as broad as the strategies chosen by the organization or unethical behaviors linked to organizational outcomes.

2.2.3 Justice perceptions

There is a substantial stream of research linking perceptions of justice to organizational outcomes such as perceived organizational support and leader-member exchange (Wayne et al., 2002; Fein et al., 2013), organizational commitment and intention to leave (Loi, Hang-Yue, & Foley, 2006; Simons & Roberson, 2003), or even product quality (Cowherd & Levine, 1992). While researching justice perceptions, students of organizations typically differentiate between distributive, procedural, and interactional justice. Whereas distributive justice is related to norms of resource allocation, procedural justice is related to voice during decision-making processes, and interactional justice to how individuals treat each other (Colquitt, 2001). Schmitt et al. (2010: 212) describe these views on justice by asserting that individuals “want to get what they deserve and deserve what they get. They also prefer that others be treated fairly. Moreover, they are eager to be perceived as fair and decent members of society, and they want to be able to trust in the fairness of others.” In this thesis, justice perceptions are understood as self or other-centered judgments about specific processes or outcomes. Hence, justice perceptions can be oriented toward oneself as well as toward third parties. Moreover, justice perceptions can be related to processes within an organization as well as to the state of resource allocation within a given context.

It is noteworthy that organizational research linking perceptions of justice to organizational outcomes is almost exclusively focused on the employees’ or non-leaders’ perceptions of justice. A focus which is quite surprising for at least two reasons. First, there is some evidence as suggested for instance by Kassing & McDowell (2008) that justice perceptions have different consequences for managerial and non-managerial employees. They find that, on the one hand, managers respond to issues of justice by expressing upward dissent, i.e. they voice their dissent to their superiors. On the other hand, non-managerial employees express displaced dissent, i.e. they voice their dissent to relatives outside the workplace. This is explained by the fewer opportunities conferred to non-managerial workers by their lower organizational status (Kassing & McDowell, 2008). Second, recent psychological research has documented that individuals perceive justice from different perspectives. The main perspectives to be found in the literature are the victim’s, the perpetrator’s, the beneficiary’s and the observer’s justice sensitivity (Schmitt et al., 2010). Thinking from this multi-perspective view of justice, much of the justice-related organizational research has focused on the victim’s perspective, for

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