Dark side of discretion

This chapter examines the concept of discretion, defined as the degree of choice or " latitude of action" available to managers (Hambrick & Finkelstein, 1987). We propose that, lthough discretion is necessary for leaders to make positive contributions to their organizations, it also provides the potential for leaders to disrupt and destroy them. This dilemma has possible implications for the fate of organizations and even societies. Thus, given the tendency for academics to romanticize senior leaders, we focus on the dark side of discretion and how it links leader personality to organizational failure.

Consider Harry Stonecipher, an executive at General Electric in the 1980s, an organization that tolerated, if not actually reinforced, his intimidating management style. Although he earned a reputation for integrity by taking strong positions on ethical issues, media accounts of his career at GE, and later at Sundstrand and McDonnell Douglas, indicate that his abrasiveness earned him many enemies. (The details of this case are based on several media reports, particularly Isidore, 2005.) Stonecipher Joined Boeing in 1997 when it acquired McDonnell Douglas.

He retired in 2002, but as Boeing's single-largest shareholder, he remained on the board of directors. In December of 2003, amid an ethics scandal that led to the resignation of the CEO, Phil Condit, and sent two other executives to prison, he eturned as CEO. Wall Street approved of his return and Boeing's stock rose by 52% during his tenure. In the spring ot 2005, Stonecipner's many detractors tinally caught up with him. An anonymous letter informed the board that he was having an extramarital affair with another Boeing executive.

According to the Associated Press, " The board concluded that the facts reflected poorly on Harry's Judgment and would impair his ability to lead the company. " Sonecipher was fired, and Boeing became the subject of yet another public scandal. This case illustrates three points about leader personality. First, personality matters" who leaders are determines how they lead, for better or worse. Second, personality flaws shape Judgment and sometimes lead to ill-advised decisions; they also prompt behaviors that create enemies, alienate coworkers, and 2 undermine teams.

Third, leader personality is most consequential at the top, where there is great freedom of choice and much is at stake. This paper is organized as follows. First we review the literature on managerial discretion, which indicates that discretion moderates the relationship between leader personality and organizational performance. Second, we present a model for conceptualizing the links between leader personality and organizational performance. Third, we present a particular viewpoint on personality that may be useful in research concerning how leaders harm organizations.

Finally, we use empirical research and examples from the business press to illustrate how dark side personality characteristics impact and possibly destroy organizations. Our argument is that, under conditions of high discretion, organizations come to resemble their leaders" warts and all. 3 DISCRETION Discretion is a multifaceted variable that reflects the degree to which managers can urn their intentions into reality" what Hambrick and Finkelstein (1987) call " latitude of action. " When discretion is low, managerial Judgment and behavior are constrained.

When discretion is high, managers are relatively free to do as they wish. Thus, discretion is a situational variable that moderates how much leaders can affect organizational processes and outcomes. Three lines of research show how discretion influences leadership. Social Psychology of Discretion. In an influential critique of traditional personality psychology, Mischel (1968) argued that behavior is determined by situational factors rather than personality variables. He later conceded that personality may influence behavior, but only in " weak situations. According to Mischel (1977), strong situations provide clear, unambiguous cues about appropriate behavior, and that leads to less variability in how people respond. Weak situations provide only ambiguous cues for action; these conditions allow greater opportunity tor personality to intluence behavior . Situation strength nas been used to analyze organizational behavior (Weis & Adler, 1984). Research shows, for example, that Job autonomy moderates the relationship between personality and performance (Barrick & Mount, 1993).

However, the concept of situation strength has not been widely used in the study of leadership. The concept of situation strength is obviously related to discretion. Thus, situation strength should be inversely related to organizational level because, with increasing organizational status, autonomy increases and roles and performance criteria become less clearly defined (Zaccaro, 2001). Self-serving Agents or Strategic Leaders? Mischel's ideas about situational strength are consistent with agency theory and strategic leadership theory, two management models that were developed independently of Mischel.

Agency Theory Jensen and Meckling (1976) introduced a model for reconciling the conflicts of interest in public corporations between principals (shareholders and owners) and agents (executives). Agency theory proposes mechanisms to deter senior managers from pursuing personal gain at the expense of shareholder value. Agency theory predicts that executives prefer to drive revenues because their pay is tied to revenue and profitability primarily benefits the owners/investors; research supports this prediction (Cannella & Monroe, 1997; Gray & cannella, 1997). Agency theory leads to several conclusions; we will highlight two. First, certain tructural mechanisms can reduce executive selfishness and promote greater manager-owner alignment. Specifically, self-interested executive behavior is inversely related to the power of boards of directors, governance structure and activity, shareholder activism, and the extent to which executive pay is tied to firm performance (Cannella & Monroe, 1997; Eisenhardt, 1989; Tosi, Katz, & Gomez-Mejia, 1997). Note that these mechanisms are designed to reduce executive discretion. Second, these controls are rarely enforced in practice.