

## 10.6: The Role of Ethics and National Culture

### Learning Objectives

1. Consider the role of ethics and power.
2. Consider the role of national culture on power.

### Ethics and Power

Power brings a special need for ethics, because the circumstances of power make it easy for misuse to occur. As we have seen, a company president wields at least three sources of power: legitimate from the position they hold, coercive from the ability to fire employees, and reward such as the ability to give raises and perks. Expert power and referent power often enter the mix as well. Now take the example of setting the CEO's pay. In a public company, the CEO presumably has to answer to the board of directors and the shareholders. But what if the CEO appoints many of the people on the board? What if the board and the CEO are friends? Consider the case of Richard Grasso, former chairman of the New York Stock Exchange (NYSE), whose compensation was \$140 million plus another \$48 million in retirement benefits. At that time, the average starting salary of a trader on the NYSE was \$90,000, so Grasso was being paid 1,555 times more than a starting employee. The NYSE Board of Directors approved Grasso's payment package, but many of the board members had been appointed to their positions by Grasso himself. What's more, the NYSE's function is to regulate publicly traded companies. As Hartman and Desjardins noted, "The companies being regulated by the NYSE were the very same companies that were paying Grasso" (Hartman & Desjardins, 2008). Grasso ultimately resigned amid public criticism but kept the \$140 million. Other CEOs have not faced the same outcry, even though average CEO pay increased 200% to 400% during the same time period that average worker pay increased only 4.3% (CEO paycharts, 2005). Some CEOs have earned a great deal of respect by limiting what they are paid. For example, Japan Airlines CEO Haruka Nishimatsu earns the equivalent to \$90,000 per year while running the 10th largest airline in the world. In addition, he rides the bus to work and eats in the company cafeteria with everyone else (Petersen, 2009).

### Video Connection: Haruka Nishimatsu

If you are interested in learning more about CEO Haruka Nishimatsu, view this CBS News video segment, available at the following Web site:

[www.cbsnews.com/video/watch/?id=4761187n](http://www.cbsnews.com/video/watch/?id=4761187n)



Figure 10.6.13: CEOs like James Sinegal of Costco Wholesale Corporation note that compensation is not the main motivation for their work. Consistent with this sentiment, by choice, Sinegal remains one of the lowest paid CEOs of a Standard & Poor's 500 company, and he has not received a raise in 7 consecutive years. Mike Mozart – [Costco](#) – CC BY 2.0.

### Power Around the Globe

Power also has a cultural dimension. In some countries, power is centralized in the hands of a few. This type of distribution makes up high power distance countries. Within organizations in these countries, the structure is hierarchical, and compensation is based on your position in the hierarchy (Javidan et al., 2006). People in high power distance countries expect unequal distribution of power, such as large differences in pay and status. People in positions of authority in these countries expect (and receive) obedience. In Brazil, for example, there are formal relationships between the leader and followers, and it's clear who has the most power in any given work environment. Important decisions, including decisions on hiring and raises, are made by the person in charge, and decisions are often based on loyalty rather than on formal review mechanisms. Japan is also a higher power distant

country and has unequal power and wealth among its citizens. But, people do not perceive this inequity as inherently wrong; rather, they accept it as their cultural heritage. Other examples of high power distance countries include the Arab nations, the Philippines, Venezuela, and Spain.

Countries with a low power distance rating, such as Australia, the Netherlands, and Sweden, value cooperative interaction across power levels. They emphasize equality and opportunity for everyone. For example, Australians want their leaders to be achievement-oriented, visionary, and inspirational, but they don't want their leaders to stand out too much. Leaders need to be seen as "one of us" (Ashkanasy, 1998). Organizational structures in low power distance countries are flatter with higher worker involvement. Status is based on achievement rather than class distinction or birth. People in power cannot arbitrarily hire their relatives or reward those loyal to them. There are formal review mechanisms in place to give everyone a fair chance at pay raises, and the difference in pay between high-level and lower level jobs is smaller.

These differences in perceptions of power become especially important in international ventures in which people of different countries work together. For example, in a joint venture between an American and a Mexican company, American managers were continually frustrated with what they perceived to be slow decision making by Mexican managers. Even the e-mails sent to the Mexican subsidiary were taking a long time to be answered. Mexico ranks higher on the power distance dimension than the United States—company structures are more hierarchical, and decisions are made only by top managers; therefore, lower level managers in Mexico could not make decisions on behalf of their bosses. In the case of e-mails, employees were consulting with their managers before answering each e-mail, taking a long time to answer them.

In addition to differing perceptions of power, how people influence each other seems to be determined by culture. Cross-cultural research shows that the more task-oriented influence tactics, such as rational persuasion, are seen as more effective in the United States than in China, and that Chinese managers rated tactics involving relationships such as coalitions as more effective than did the American managers (Fu & Yukl, 2000; Yukl, Fu, & McDonald, 2003).

## Key Takeaways

Power can be easily abused. This is especially the case of CEOs who are rewarded by a board of directors that is often staffed by trusted friends and colleagues of the CEO. It is not hard to imagine that this might become a conflict of interest. Countries differ in terms of power distance. Some countries such as Brazil see a formal relationship between leaders and followers based on a rigid hierarchy.

## Exercises

1. What could be done to make sure that CEOs are paid fairly for their work rather than as a favor from their friends?
2. What is some advice about power that you would give to a colleague who was leaving to China to set up a new business?

## References

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