A

Authentic Leadership

ABSTRACT

Authentic leadership is a concept that began to emerge in its modern form in the 1960s but its theoretical origins can be traced as far back as ancient Greece. Fundamentally, authentic leadership characterizes an individual who combines two qualities. The first is a deep level of understanding of one's own internal emotional and psychological state, an awareness of one's values, beliefs, and priorities (Bellin 2012). The second is a commitment to behaving in ways consistent with these values, beliefs, and priorities. The result is a leader able to inspire trust, projecting an image such that "what you see is what you get."

OVERVIEW

In addition to the traits of self-awareness and self-consistency, a number of different factors have been identified as contributing to the development of authentic leadership. One of these traits is the presence of frequent and effective self-monitoring. This work requires an individual to make it a personal priority to take time to reflect on his or her behavior and assess whether that behavior seems to be in line with the individual's espoused ideals. Only when a mechanism for self-monitoring exists is it possible to embody a commitment to self-consistency (Godino 2013).

Another factor that supports authentic leadership is optimism. The role of leaders is often to decide what goal an organization will pursue, from among a variety of options. Because managers of organizations do not normally plan to fail, they generally pursue goals that they believe they can attain. Determining an organizational goal requires not only that a leader have a realistic understanding of the capability of the organization and its members, but also a degree of faith in the organization—a belief that through hard work and careful planning, things will work out. This quality is at the heart of optimism, and it is essential for a leader to project such optimism, because without it there is not much chance that people in the organization will feel inspired to work to their utmost ability. After all, why should staff members do their best if they get the sense from the boss that the project has little chance of succeeding? Furthermore, optimism is difficult to fake, which is unsurprising given its connection with authentic leadership (Watson and Johnson 2013). If an organization's workers believe that leaders are only feigning optimism in order to lead them into working harder, then the long-term consequences for the organization will usually be worse than if no such deception had been attempted.

Closely related to the quality of optimism, and equally important for authentic leadership, is a leader's sense of hope. It can be difficult to determine the difference between optimism and hope because there is a large amount of overlap between the two, and in everyday language, people tend to use the words interchangeably. Organizational psychologists distinguish optimism from hope as follows: Optimism is the ability to acknowledge one's own contributions to positive events while also being able to interpret negative events as being partially caused by factors outside of one's control. Hope is defined as an outlook that allows one to develop goals and to perceive how those goals can be achieved.

Naturally, it would be difficult for leaders to function without either optimism or hope, because without optimism they would blame themselves for setbacks and attribute successes to temporary good luck, while the absence of hope would prevent them from even conceiving of goals to strive for, much less the means of achieving them. On the other hand, leaders armed with optimism and hope are prepared to embark on a journey with their organization, giving and receiving support to staff members along

A businesswoman addresses her followers (Photo Courtesy of Asamblea Nacional del Ecuador)

the way. The third major component underlying authentic leadership's practice of self-awareness and self-consistency is resiliency. Resiliency is the ability to recover one's sense of equilibrium after a stressful event (Woldeyes 2014). Examples of stressful events include a severe illness, the loss of a job, a divorce, or even a promotion that entails additional responsibility. When such events occur, a natural response is to experience stress and discomfort. Some people have difficulty moving beyond those feelings, while others adapt within a reasonable time frame to the new circumstances and return to the level of functionality they enjoyed before the stress-inducing event. Those in the latter category are said to be more resilient (Ladkin and Spiller 2013).

Resiliency is needed for authentic leadership because any organization or individual can expect to experience setbacks while working toward a goal; the only cases in which this does not happen are those in which the actor has chosen a goal so simple to achieve that it is virtually without significance. When all of these components are present, authentic leadership is possible. Resiliency, optimism, and hope are required in order for a leader to function effectively—the leader must be able to conceive of worthwhile goals and the means of achieving them, while having the internal strength to avoid being deterred by setbacks and doubts. If these qualities are in place and the leader is able to exercise self-awareness and self-consistency, then possibilities of transformation can open up at the individual and organizational levels. This is because of the power of authentic leadership to build and maintain trust throughout the organization.

Authentic leadership's main benefit is that it encourages people to have faith in one another and to bring down the protective barriers that most people surround themselves with on a daily basis. By lowering these defenses, new and more powerful connections become possible, and previously isolated members of the organization are able to share their knowledge and experience with one another.

APPLICATIONS

Some research into the nature and efficacy of authentic leadership has highlighted the fact that it tends to be highly context-dependent. In other words, authentic leadership is believed to grow out of an individual's collected life experiences; it is difficult, if not impossible, to make someone an authentic leader. Instead, authentic leadership is a quality that emerges on its own although some argue that it can be helped along the way by deliberately engaging in self-reflective activities. The root of authentic leadership is the leader's particular combination of life experiences and ethical perspectives, which together produce a set of core beliefs and values (Auerbach 2012). If the leader is able to stay in touch with those beliefs and values while continuing his or her work, then authentic leadership can be achieved. For many leaders, however, it appears that the ability to remain authentic is grounded in the context with which they are most familiar. For example, if one were to take a highly successful corporate executive who is adept at leading his or her team authentically to achieve greater profits while maintaining a high level of quality and place him in a position with a nonprofit organization that has as its mission the provision of in-home assistance to the elderly, there would likely be some difficulty experienced by all concerned. The executive would likely still be able to lead the nonprofit, but doing so in an authentic manner would present some challenges (Redmond 2009) because the executive has a fully developed set of values and priorities that pertain specifically to the profit-oriented, corporate sphere of activity. He or she is so thoroughly familiar with this realm that he or she is able to fulfill his role authentically with very little conscious effort. However, that lack of familiarity with the demands of the nonprofit leadership role may lead to struggles to understand its system of values; she may only be able to enact them authentically after she has spent sufficient time to absorb and embrace them.

Another perspective on how to develop authentic leaders puts the process in a more positive light. Instead of being discouraged by the somewhat ineffable nature of authentic leadership, authentic leadership can be seen as an emergent property that develops out of how one responds to one's life circumstances, which means that everyone has the potential to become an authentic leader. If authentic leadership were an inborn trait, then only a lucky few would have access to it (Mundahl 2013). In the same way that many scientists have come to believe that an individual's characteristics are determined by a combination of genetics and environment—nature and nurture—many in the field of authentic leadership research affirm that people from all walks of life have access to the elements necessary for developing into an authentic leader. While there is little doubt that this view tends to gloss over many of the significant obstacles people face—discrimination, poverty, physical or mental illness, and so forth—the idea everyone is equal in opportunity to develop authentic leadership is largely agrees with Western ideas of meritocracy, rugged individualism, and pulling oneself up by one's bootstraps. It is important to keep in mind that while the benefits of authentic leadership are theoretically attainable by everyone, for most people, they will remain elusive without a concerted effort being made to develop the qualities upon which authentic leadership relies.

Viewpoints

There is widespread agreement that self-awareness is the most difficult authentic leadership quality to attain, as it requires a level of honesty and introspection that most people do not have either time or courage to pursue because most people spend a large portion of their waking hours trying to fit in with groups of other people, whether at work, at home, at school, or elsewhere. Fitting in usually requires some degree of compromise on the part of each person, and over time these compromises tend to accumulate, bringing one further and further away from one's core identity. Rediscovering this core identity can be a time-consuming and even painful process, as it forces the recollection of the many compromises one has made, some unwillingly. The more challenges a person faces in her day-to-day life—financial, relational, emotional, etc.—the more difficult it will be to devote the time and energy necessary to developing the self-awareness that is required for authentic leadership (Neider and Schriesheim 2014).

Another concept frequently associated with authentic leadership is transparency, an absence of subterfuge and an affirmative effort to be as open as possible with one's team and with other actors in the environment. By definition, one cannot practice authentic leadership if one feels the need to conceal one's motives or behavior because the very act of concealment is contrary to the nature of authenticity (Heminsley 2013). When leaders strive for transparency, they make it a priority to communicate to their constituents not simply the nature of a decision and its immediate consequences but also the reasons for taking the decision, particularly if the matter at hand is a sensitive one. For example, when a company finds it necessary to lay off some of its employees in order to stay in business, the situation is extremely difficult for those who are being let go and for those who remain but fear that they might be next. The anxiety that surrounds the issue makes it easy for people to look for someone to blame and try to avoid being the target of blame. For this reason, many leaders facing the situation simply announce the cuts and terminate the discussion, hoping to put an end to unrest. Usually this approach has the opposite effect, as it increases feelings of anger, mistrust, and fear. An authentic leader would likely take a different approach, by including with the announcement an explanation of what factors contributed to the decision. To continue the example, it might be that the company's online sales have taken off while its brick-and-mortar sales have steadily declined, leading management to the conclusion that if a cut must be made, it should be from the retail locations the firm operates. This information may not make it any easier for the employees who are affected to cope with the dire news, but it does make it more difficult for people to interpret the reductions as attributable to malice or incompetence. The result is that people are more likely to have a sense that they are being dealt with fairly, even if the situation remains unpleasant.

It should be remembered, however, that transparency is not always as simple as it sounds, and sometimes it is virtually impossible to implement. Situations that involve confidential information or legal liability may sometimes prevent leaders from being as transparent as they might wish to be, although even in these situations, it may be possible to at least share a description of the constraints preventing disclosure.

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B

Best Practices

ABSTRACT

Best practices refer to a set of methods with a proven track record of success for accomplishing certain tasks. Best practices are applied in a variety of professions, including the agricultural and farming industry, environmental management, manufacturing, business, education, government, nonprofit organizations, and teaching. They are also used in laboratory science in an effort to apply key lessons from others' successes; avoid areas prone to mistakes or inefficiencies; and to standardize processes across the field.

OVERVIEW

Best practices have been used in a variety of instances over history, arising when someone observes a technique that improves a process in one area and applies it to a process in another area, making the technique a standardized procedure. Many consulting firms capitalize on advising businesses and organizations on implementing best industry practices for their respective fields, which include, but are not limited to, health and human services, government organizations, and marketing. Additionally, consultants advise a standardized process for developing and implementing best practices. This method includes the following steps:

1. Develop realistic expectations of what needs to be achieved.
2. Analyze smart practices used in other areas to see how than can be applied.
3. Observe the best practices.
4. Describe possible vulnerabilities that can occur when implementing the new process or practices.
5. Determine if the new practice will meet the expectations and needs of the area where it will be applied.

Best practices have also been extensively used in the leadership development and managerial methodologies in the field of human resources. They provide practical examples and techniques for dealing with human capital management issues, such as writing performance appraisals, dealing with insubordinate employees, delegating responsibilities or tasks, or enhancing overall leadership style and team management. Best practices can also be applied to interview techniques and résumé-writing skills.

Best practices are also applied in the field of education, providing guidelines for standardizing classroom

Employees discuss how best to proceed (Photo courtesy of Melina Masnatta) techniques in distance learning classrooms, online learning, and mobile learning environments. For example, common best practices used in education include: encouraging interaction between students and teachers, using active learning techniques, emphasizing task deadlines, respecting diversity of talents and ways of learning, clearly communicating task expectations and parameters, developing collaboration among students, and providing prompt feedback and evaluation through open dialogue. These best practices have been applied to all levels of educational instruction—from elementary school classrooms to higher education environments—because of direct impact they have had on creating a successful learning environment for students.

Best practices have also been applied to standardized healthcare services in doctors' offices and hospitals worldwide, with healthcare professionals routinely sharing best practices and techniques through professional conferences, research collaboration, and publication of research in academic and medical journals. Development and implementation of best practices combined with advancing technology continues to foster cutting-edge improvements in the field of medicine.

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Building Human Assets

ABSTRACT

Since human assets account for a significant proportion of company expenditure and company value, a company's real value must incorporate the value of its human assets. Through compensation management, investments, and by appealing to the minds and hearts of employees, a company's human assets can be built to become a significant source of competitive advantage. However, this is not without risk, as there are uncertainties posed by the dynamic nature of companies, markets, and employees. Carefully planned human resource initiatives can help reduce these uncertainties.

OVERVIEW

Every company has both hard assets and soft assets. Hard assets, also known as physical or tangible assets, include items such as buildings and machinery, and soft assets include intangible assets like human beings. Business success requires a combination of hard and soft assets. Human assets consist of a company's employees and their value in terms of the quantity and quality of their knowledge, skills, abilities, competencies, talents, experience, and attitudes. Another term for human assets is human capital. The concept of human assets or human capital initially originated in the field of economics, where it was first used to explain the economic growth of countries. This concept has only in recent decades entered the field of management, thanks to the realization that a greater proportion of the added value created by corporate entities is not dependent on physical assets alone, but is increasingly dependent on other assets. In fact, the added value created by corporate entities is increasingly dependent on intangible assets.

Companies make investments in human assets. They buy human assets by hiring employees, and they make or build human assets through training, job experience, and other strategies. A company's human assets are its main sources of competencies and capabilities, and they constitute a valuable strategic asset which is necessary for creating and sustaining competitive advantage. As income generating assets, employees are a form of organizational wealth, with a potential for impacting shareholder value. The actions and professionalism of employees also have an effect on customer perceptions of a company. Given that human assets account for a significant proportion of company expenditure, it is surprising that managers tend to know less about their human assets than they do about other assets of their company.

Human Resource Accounting

Due to the vast significance of human assets, coupled with the recognition that human resources are assets with value, recommendations have been made for human assets to be incorporated into company accounts, a move which gives investors and all stakeholders a better valuation of a company. In response to these recommendations, academics and practitioners in the fields of economics, accounting, human resource management and general management, have been striving to define, evaluate and measure human assets. Their efforts have led to the creation of a subfield known as human asset accounting or human resource accounting, which is concerned with determining the value of the human resources employed in an organization, to that organization.

Apart from gaining a realistic appraisal of their corporate worth, companies that are able to place value on their human assets enjoy a myriad of additional benefits, including the measurement of the return on investments they make on their employees, and improved decision making. In addition, valuing human assets helps companies plan their future employment needs and also helps them to generate objective information for making projections for training and management development activities. Once they know the value of their human assets, human resource managers will be able to enlighten managers about the real value of lost skills, knowledge, and expertise. Both companies and investors will be able to understand the factors that drive corporate performance; and companies will be able to identify future sources of value in a competitive business environment. They will also be able to understand how investing in people creates value.

Methods for Determining Human Asset Value

There are several means of determining the value of human assets to an organization. These include the following:

- **Economic value:** This approach defines the value of human assets as the present value of that portion of the future earnings of the company, attributed to human resources. Economic value can be calculated through the use of the Discounted Cash Flow model, which tries to predict the future earnings employees will generate, by discounting these cash flows to the present.
- **Opportunity costs:** In this approach, the value of human assets is defined as their value (or worth) in their best alternative use.
- **Value to the undertaking**: When a company has several cost centers (be they plants, divisions, or departments) competing for a particular employee, the employee is assigned to the highest bidder, and the bid price denotes the value of the employee to the company and to the cost center.
- **Total contribution:** This approach measures the performance of the company, and the contribution of its human assets to this performance.
- **Historical costs:** This approach considers the costs of acquiring, developing, maintaining, and utilizing personnel. Personnel expenses are treated as investments and the costs are treated as costs of long term assets, spread over the expected useful period of the investments. If an employee leaves the company before this period is over, the balance when he or she leaves is considered to be a loss.
- **Replacement costs:** This concept involves calculating the estimated cost to the firm for replacing employees with other people of equivalent talents and experience. Like the historical cost approach, this approach also considers the costs of acquiring, developing, maintaining, and utilizing the replacement employees.

In the area of human assets, as with all other assets, value determination must be an ongoing activity, since the value of people can appreciate or depreciate due to several factors: first, people tend to move constantly within their company, as well as between companies; and second, the gain from employees is subject to change, as business conditions, technology, company conditions, and individuals undergo change.

FURTHER INSIGHTS

As they face the challenge of increasing global competition, human resource professionals must ensure that their company's human assets are adding as much value as possible to their products and services. Human resources professionals must build on their human assets by selectively hiring and attracting employees, and motivating them to stay with the company. Job satisfaction, a key factor for motivating employees to stay in a company, has five dimensions: compensation, supervision, coworkers, promotion, and the work itself.

Building Human Assets through Compensation Management

Pay satisfaction tends to decrease when employees perceive inequity or injustice of pay distribution within a company. Therefore, some employees may be more affected by pay differentials within a company than by pay differentials in the labor market. This reality creates opportunities for a company to increase job satisfaction through internal changes rather than by competing with other companies. Often, employees will not compare their pay across companies unless they encounter problems with their employers.

Companies are more likely to generate profit from their employees if they practice shared ownership initiatives such as profit sharing, group incentives, and performance-based compensation. Shared ownership helps to bind employees to their company, and it also encourages employees to align their individual goals with those of the company, since their personal rewards will be linked with company performance.

Levels of Shared Ownership

There are three levels of shared ownership, the first being at the organizational level. Shared ownership at this level can be affected through means such as stock ownership and profit sharing. The effectiveness of shared ownership at the organizational level is reduced in cases where there are low amounts of profit to be shared; where employees do not have much of a say in company matters, and; where employees can easily cash in their stock. Therefore, shared ownership at the organizational level works best when it is focused on senior, influential employees who have more of a say in decision making, and who are less likely to dispose of their stock, since any such move might affect overall stock value.

At the group level, shared ownership is appropriate in cases where production is team based rather than individual based, and it should be linked to group level performance measurement. The smaller the group, the more effective the incentive. Shared ownership incentives at the individual level work best when there is ample information in the company to justify giving individual incentives to those whose effort will greatly influence company performance. In these cases, the individual rewards must be highly valued by the recipients.

Building Human Assets through Investments

Companies typically make four types of investments in order to build their stock of human assets. These are:

1. Direct expenditures on education
2. Direct expenditures on health
3. Direct expenditures on internal migration
4. On-the-job training

Employees require ample knowledge to enable them to direct their skills appropriately; and they cannot apply those skills if they are not in good health. Poor health leads to unavailability and undesirable attitudes, causing poor job performance. Employees tend to be impacted strongly by the manner in which management satisfies their knowledge, skill and health needs. On-the-job training is an important success factor: Extensive training has been found to be a key characteristic of the most profitable companies. One may talk of two types of training: general training, whose costs are typically borne by employees and firm specific training, whose costs are borne by a company or shared between the employee and the employer The sharing of training costs is tantamount to an investment in the company on the part of an employee, and it often leads to increased job security for the employee.

Building Human Assets through the Minds & Hearts of Employees

Nonfinancial dimensions of job satisfaction can be put in place to create a congenial work climate that can be as satisfying as monetary compensation, with low need for maintenance, and low cost. Companies with the best human asset management practices share the following characteristics:

- **A belief in value for competitive advantage:** All employees try to ensure that every task adds value in achieving competitive advantage, for instance, by making sure that the work environments portray strongly shared values and as such, promote individual integration and greater employee commitment.
- **Long-term commitment to a core strategy:** Everyone in the company understands that success depends on long-term commitment to a core strategy. Any change introduced by management is considered very carefully before being implemented.
- **Strong culture:** A strong, widely shared corporate culture and company systems are closely linked and managed for consistency and efficiency in the company.
- **Constant and extensive two-way communication:** Management believes that people have the ability to deal with all types of information, both good and bad. All available media are used and all vital information—including financial and performance information—is shared with employees and other stakeholders.
- **Partnering with stakeholders:** There is recognition of the need to partner with stakeholders, both within and outside the company; and there is a need to involve them in decision making as well as in the design and implementation of new programs.
- **A high level of collaboration:** All functions and sections in the company enjoy a high level of collaboration and involvement, and they receive support to collaborate on new product development.
- **Innovation and risk:** Such companies are not afraid to take risks or innovate or even to make drastic changes—they realize that innovation and risk-taking are absolutely necessary in a volatile marketplace.
- **Commitment to continuous improvement:** Such companies have their systems and processes set up to actively encourage and gather new ideas from all sources.
- **Building human assets through other means:** There are many other means by which companies can build their human assets, such as through interpersonal relations; a team-based work environment; the nature of the work itself, and; promotion among others. Interpersonal relationships play a large role in job satisfaction, since job satisfaction increases with employees' satisfaction with their coworkers. Companies can also decentralize to self-managed teams, thus creating a team-based work environment which can be maintained and nurtured through social activities.

Professionals, especially, have their job satisfaction closely linked to the nature of their work. Companies should therefore endeavor to motivate their professionals through creative job design. Promotion is another tool for enhancing job satisfaction. Companies can structure the career paths of individual employees, offering job assignments as rewards. Other nonfinancial sources of job satisfaction include employment security, and reduced status distinctions and barriers.

Making Human Assets a Source of Competitive Advantage

Companies cannot gain sustainable advantage simply by having talented employees. In order to have sustained competitive advantage, apart from using the typical financial, strategic, and technological means, companies must work on establishing their organizational capability, which is the ability to generate commitment from the human assets in the organization. Without commitment, there will be high employee turnover.

When companies set up systems of human resource practice that are difficult to replicate or imitate by their competitors, their employees are less likely to leave. They can seek to achieve this goal through their corporate culture, work climate, congenial interpersonal relations, and teamwork.

Creating Firm Specific Employees

Companies should equip their human assets with a stock of special skills, knowledge, routines, and/or personal relationships that are unique to their organization, thus creating firm specific employees. According to Kulkarni and Fiet (2007), a company and its specialized employees are mutually dependent on each other, and one of the ways in which a company can foster this mutual dependence, is through training. Companies that make firm specific investments in training should share training costs and benefits with their employees. Employees who have received such firm specific training would lose out if their job contracts were terminated, since their firm specific skills would be less valuable to another company. As such, employees endowed with firm specificity have less incentive to leave their employers, and likewise, companies have less incentive to let them go. This situation applies mostly to senior management: Offstein and Gnyawali (2006) proposes that the greater the capacity of the human assets in the top echelon, the greater the competitive advantage of that company.

General Human Assets

General human assets—those employees with general skills and knowledge—on the other hand, have the potential for high turnover, since their skills can be easily traded on competitive labor markets. Fortunately, though, even for general human assets, there are some means of alleviating turnover problems, such as increasing pay, making work challenging, and offering firm specific compensation. Firm specific knowledge can be enhanced by creating unique equipment, processes, teams, and/or communication. Firm specific promotion opportunities should also be put in place. Shared governance is also a valuable initiative since it increases employee participation and information sharing, thus increasing job satisfaction. Such strategies help to reduce—though not completely—the risk of employee turnover.

ISSUES

Risk & Risk Reduction

There are risks associated with building and investing in human assets. Like all other assets, their future value or future return can be uncertain. Companies, the market, and employees themselves, are all potential sources of uncertainties in the area of human assets. Through human resources practices, companies can help reduce the costs and/or reduce the uncertainties of human assets.

Uncertainty of Returns

The value of human assets can depreciate or appreciate and so too can the value they generate for the company. These types of human asset risks are termed uncertainties of returns. When faced by high levels of uncertainties of returns, companies can invest more in growth and learning opportunities, for instance; training for new skills and improved learning abilities. They can also increase selectivity when recruiting employees with broad-based skills; and they can also introduce skill-based pay. Such interventions will help lower and manage the risks of obsolete skills, as well as the demand for future skills.

Uncertainty of Human Assets

Companies can be responsible for causing uncertainties of human assets. For instance, a change in strategy can lead to changes in job responsibilities, and it can also lead to sudden demands for skills not possessed by employees. Uncertainties of combination are created by the risk of employees being wrongly matched to their job responsibilities, due to variations in demand and supply.

Uncertainty of Combination

Uncertainties of combination can be reduced through job rotation and team-based work. Through job rotation, employees develop multiple and flexible skills and behaviors by being rotated among different types of jobs. Team-based work achieves similar results by ensuring that employees move among temporary teams formed for particular projects or jobs.

Uncertainty of Cost

Uncertainties of costs are concerned with variations in the ratio of total expenditure on human assets to company revenues, caused by changes in company performance and remuneration. In such cases, variable compensation plans, performance-based incentive plans, and defined contribution pension plans, may be used to prevent and restore imbalances in the ratio of total expenditure on human assets to company revenues.

Market Changes

The market can also cause changes in business conditions, customer needs and competitor actions, which can lead to fluctuations in the supply and demand of suitable potential employees from both within and outside the company. External changes can also lead to skills obsolescence, as employees face a lack of present or future skills.

Employee Nature

Uncertainties are brought about by the nature of employees themselves, since a company does not have control over individuals. Unlike other assets, human assets have control over themselves. Individual employees make behavioral choices which are sometimes unpredictable. Employees may decrease their performance, making them less fitting for a particular job, thus causing a loss in productivity.

Uncertainty of Volume

The risk and reality of employee turnover leads to uncertainties of volume, counteracting efforts to build human assets, and any company committed to building human assets must strive to reduce turnover. This goal can be accomplished through the means discussed above, including offering highly competitive pay; employee stock options; participation programs; voice mechanisms, like grievance procedures and suggestion schemes; attractive benefits packages; and flexible work arrangements. Those companies that have very critical uncertainties of volume should endeavor to alter their operating scales and timing, so that they utilize contingent, part time and contractual employees when necessary.

Options

In order to be able to proactively manage uncertainties and respond immediately to change, companies must develop options, which are investments in assets that provide the capability to respond to unplanned future changes, and to manage uncertainty. It is important, however, that every option, program or package that is developed to build human assets must fit in with company strategy; must be affordable to the company; and must be perceived as valuable by the employees.

TERMS & CONCEPTS

- **Competitive advantage:** A gain that a firm has over its competition, causing it to generate higher sales or margins and/or retain more customers than its competition.
- **Discounted cash flow model:** A model that tries to predict the future earnings employees will generate, by discounting the future cash flows to the present.
- **Firm-specific employees:** Employees with a stock of special skills, knowledge, routines, and/or personal relationships that are unique to their company and not easily transferable to other companies.
- **General human capital:** Employees with general skills and knowledge.
- **Hard assets:** The physical or tangible assets of a company.
- **Human assets:** Also known as human capital, human assets are a company's employees and their value in terms of the quantity and quality of their knowledge, skills, abilities, competencies, talents, experience and attitudes.
- **Options:** Investments in assets that provide the capability to respond to unplanned future changes, and to manage uncertainty.
- **Organizational capability:** The ability to generate commitment from the human assets in an organization.
- **Performance-based compensation:** Comparatively high compensation dependent on organizational performance.
- **Soft assets:** The intangible assets of a company.
- **Uncertainties of combination:** Uncertainties about employees and their job responsibilities being wrongly matched due to variations in demand and supply.
- **Uncertainties of costs:** Uncertainties regarding changes in company performance and changes in remuneration, and the resultant variations in the ratio of total expenditure on human assets to company revenues.
- **Uncertainties of returns:** Human asset risks concerning depreciation or appreciation in the value of human assets, and in the value they generate for a company.
- **Uncertainties of volume:** Uncertainties regarding employee turnover.

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Business, Ethics & Society

ABSTRACT

This article focuses on how corporations and the government have responded to unethical behavior by employees. It discusses the role of whistle-blowers as well as ways regulations such as the False Claims Act, Sarbanes-Oxley Act, and the Lloyd-La Follette Act, which have been implemented to encourage employees to report acts of misconduct. In addition, there will be a review of how employees use organizational justice as a factor in the whistle-blowing process.

OVERVIEW

Given the competitiveness in the world today, many people are tempted to go outside of the rules and regulations of society to get ahead. Although many would argue that traits such as honesty and credibility are valued, temptations have lured some to act irresponsibly. Actions such as cheating, stealing, lying, and bribing have become common in the workplace. Good moral values and actions are becoming the exception rather than the rule. How can the trend turn? Organizations must put policies in place that will encourage employees to do the right thing and inform the proper authorities when illegal actions and dishonesty take place.

Unfortunately, when employees step forward and alert the organization of wrongdoings, they are labeled whistle-blowers, and other negative labels are applied to them. Instead of being considered heroes for doing the right thing, they tend to be chastised, and some never fully recover from the experience. For many of these individuals, there is a loss of trust in fellow employees and the organizations in which they work:

> *For some, the earth moves when they discover that people in authority routinely lie and that those who work for them routinely cover up. Once one knows this, or rather once one feels this knowledge in one's bones, one lives in a new world. Some people remain aliens in the new world forever. Maybe they like it that way. Maybe they don't have a choice. (Alford 2001, 52).*

This knowledge can be a devastating moment for many. Everything that they have believed and trusted is turned upside down. In some cases, these employees may have been friends with the culprits outside of the workplace, which may place an additional burden on the potential whistle-blower. It is unfortunate that society has come to a point where individuals with moral values and a sense of right and wrong are treated as outside societal norms. Whistle-blowers have been ostracized, reprimanded, transferred, referred to psychiatric care, assigned to menial duties, dismissed, and blacklisted. There are reports of where they have been unable to seek employment at other companies because there is a fear that the same situation will occur. Organizations respond to whistle-blowers with hostility and fear.

The federal government and some states have passed legislation to protect employees who decide to become whistle-blowers. According to Sheeder (2006), the federal False Claims Act provides protection for:

> Any employee who is discharged, demoted, suspended, threatened, harassed, or in any other manner discriminated in the terms and conditions of employment by his or her employment because of lawful acts done by the employee on behalf of the employee or others in furtherance of an action under this section (i.e., a whistle-blower action) shall be entitled to all relief necessary to make the employee whole (39).

Many courts will provide protection when:

- An employee becomes a participant in a "protected activity" (i.e., when an employee decides to confront an employer about illegal activities such as fraud).
- The employer becomes aware of the "protected activity."
- The employee is penalized as a result of coming forth about the "protected activity" (e.g., termination, harassment).

When it has been determined that an employee is a victim of retaliation, he or she may petition for:

- Reinstatement with the same seniority that he or she would have had if the adverse action did not occur
- Two times back pay
- Interest on the back pay
- Special damages (e.g., compensation for emotional distress, recovery of litigation costs, and reasonable attorney's fees)
- Any type of relief that will assist the employee in becoming a whole person again (Sheede 2006, 39–40).

An employee is entitled to all of the relief listed above as well as any recovery obtained by the government based on the regulations of the False Claims Act. Given the financial penalties for acts of wrongdoing, employers are encouraged to monitor the activities of their organization so that these fines are not imposed.

In order to avoid the costly expenses of these types of situations, many organizations are encouraged to draft policies that will assist employees in feeling comfortable about coming forward to advise the senior management team and the outside world of fraudulent behavior occurring in companies today. Tennebaum provided four elements of a good whistle-blower policy. The four elements include:

Bill Friday speaks at an international business ethics panel discussion (photo courtesy of the State Archives of North Carolina)

1. A policy that has a clear purpose and a statement of intent to protect whistle-blowers to the fullest extent possible. The purpose may include creating an environment where the whistle-blower can feel safe.
2. Guidelines that provide a detailed explanation of how the organization will attempt to protect the whistle-blower.
3. Procedures on who, when, and how to contact the organization in order to report unethical and/or illegal behavior.
4. A statement declaring what the organization will do as a result of the whistle-blowing activity. (Associations Now 2007, 12)

In addition, employers should be proactive and see if they can determine (1) the types of behaviors or situations that encourage employees to participate in unethical behavior, and (2) the types of actions that encourage employees to step up and become whistle-blowers. Sheeder (2006) identified six common factors that have encouraged employees to become whistle-blowers. In most cases, the lack of organizational support was enough for the employee to seek external assistance in correcting improper behavior. Each of the mentioned scenarios is based on a real-life case study.

- **Expect employees to participate in fraudulent conduct.** There have been many situations where senior managers are the culprits. In an effort to improve the organization's image and financial records, some executives have encouraged and mandated employees to participate in unethical behavior. Excuses such as "it's really not hurting anyone," "we are getting what we deserve," "be a team player," and "this action offsets the system" have been used in order to justify the organization's behavior. When an employee refuses to play the game, he or she may be terminated, which forces the former employee to file a retaliation lawsuit.
- **Dismiss employee concerns or complaints.** Some employees have attempted to alert the appropriate officials only to find out their concerns have been ignored. Once they have worked through the appropriate channels within the organization, they may feel as though their only recourse is to hire an external attorney to champion their cause.
- **Forget about a professional's ethical duty to report.** Some employees may feel that they are obligated to report unethical practices in order to maintain the image of their profession. For example, a police officer may become aware of the fact that his or her partner is working with criminals. After attempting to reason with the partner, the police officer may feel a need to alert internal affairs in order to (1) maintain a positive image of police officers in the eyes of the community and (2) protect the public from criminal activities.
- **Don't give "public duty" enough respect.** There have been cases where an organization may be overbilling another entity and the employee may not be able to support the deception. For example, some hospitals have been accused of overcharging Medicare programs. There may be an employee who believes that the process is unethical, and innocent people may suffer as a result of the deceptive actions. Therefore, the employee feels obligated to turn the hospital in to the proper authorities. The employee may believe that it is his or her civic and public duty to do so.
- **Fail to take prompt and proper action correction.** Many employees have followed the company's policy on reporting fraudulent activity only to find out that their good deed has been ignored. They believe their only alternative is to expose the situation externally since the system has failed internally.
- **Underestimate the perseverance of an employee.** Some organizations wrongly assume that if they ignore the employee, the problem will go away. However, there are employees with a conscience, and they will pursue their cause until the problem has been resolved.

Organizations need to realize there are people who value their conscience over their job. The government recognized that big business may not always do the right thing. Therefore, it has introduced and implemented some regulations to level the playing field and allow employees to come forth. Examples of such legislation are:

- **False Claims Act:** A *qui tam* provision that was enacted during Abraham Lincoln's tenure as president. This legislation was aimed at preventing the sale of faulty war equipment by fraudulent suppliers to the government (during the Civil War). Revisions were made to the act in 1943 and 1986. In 1986, there was a significant expansion of the rights of whistle-blowers and their attorneys. The law allows individuals to file actions against federal contractors claiming fraud against the government. People filing under the act may receive 15–25 percent of any recovered damages.
- **Sarbanes-Oxley Act:** Legislation passed in 2002 with the purpose of encouraging employees to become effective corporate monitors and report misconduct and unethical behavior in corporations. The act has two approaches that encourage employees to become corporate whistle-blowers (Moberly 2006). The first step is a clause that provides protection to whistle-blowers from employer retaliation once they have disclosed improper behavior. The second step requires employers to provide employees with guidelines, policies, and procedures to report organizational misconduct within the organization.
- **Lloyd-La Follette Act:** This act was enacted in 1912 and was designed to protect American civil servants from retaliation. The purpose was to ensure the rights of employees when they wanted to provide the House of Congress, a committee or indi-

vidual congressman with information about fraud. The intent was to provide conferring job protection rights to federal employees.

- **No-FEAR Act:** The Notification and Federal Employee Antidiscrimination and Retaliation (No-FEAR) Act of 2002 went into effect on October 1, 2003. The law applies to federal agencies and is aimed at keeping employees informed of their rights under anti-discrimination and whistle-blower protection laws. The No-FEAR Act also protects against retaliatory actions on the part of employers and provides for the reimbursement of current and former federal employees and federal applicants for costs incurred in the course of asserting their rights under these antidiscrimination and whistle-blower protection laws.

APPLICATION

Life of a Whistle-blower

Two of the most discussed fraud cases in history have been Enron and Worldcom. Coincidentally, both of the whistle-blowers in these two cases were women who had risen to the ranks of vice president in their respective organizations. A study conducted by two professors at St. Mary's College in Indiana found that female business students value honesty and independence more than their male counterparts (Allen 2002). Women may be more prone to expose wrongdoing due to their value system.

Cynthia Cooper was a vice president at Worldcom, and Sherron Watkins was a vice president at Enron. The circumstances surrounding both cases were so shocking that it made the public acknowledge how corrupt some organizations had become. Worldcom would become known as the company that created the largest accounting fraud in history (Ripley 2002). "Enron and Worldcom have become America's twin symbols of business malfeasance, but share a different kind of similarity: In each case the public learned the extent of the scandal in large part through the actions of a brave woman who did the right thing by going over her boss' head" (Colvin 2002, 56).

Worldcom

Worldcom's headquarters were located in Clinton, Mississippi. The founder, Bernie Ebbers, went to college there and wanted to move his company to the area. Cynthia Cooper had grown up in the area as well and was proud of the organization. She became the vice president of internal auditing. Unfortunately, in June of 2002, she had to tell the audit committee of Worldcom's board that the organization was unethical in its accounting practices (Ripley 2002).

Worldcom had started out as a small company in 1983 but became a major powerhouse in the 1990s. Most of the executives were in their late thirties making millions of dollars. However, there was a glut of companies like Worldcom by early 2001. Many believe that this time was when the organization started to use creative accounting practices. Cooper was not a part of the illegal activities, but many of the people whom she had respected were a part of the scandal. Even the organization's external auditor, Arthur Andersen, was alleged to be a part of the cover-up. Many of the activities were geared toward providing fraudulent information to the Securities Exchange Commission (SEC).

Cooper stayed at Worldcom once she became a whistle-blower. Although she became physically and emotionally exhausted, she persevered because she did not want the innocent employees of the company to suffer. Even though Cooper can be credited as a major influence for the country starting to take corporate governance to heart, no one from the senior management team at Worldcom acknowledged the sacrifice that she had made. When speaking at different conferences, she has offered the following advice to corporations:

- Protect whistle-blowers so that they can continue to provide information to support their allegations.
- Set an ethical tone at the top. In the Worldcom situation, the deceitful few were members of the senior management team.
- Hold more committee meetings and consider going into executive sessions.
- Remain flexible in the course of auditing and maintain an element of surprise (Peterson 2005).

VIEWPOINT

Organizational Justice

Alford (2001) has been quoted as saying that "the whistle-blower is a political actor in a nonpolitical world" (97). This statement should be interpreted as meaning that the whistle-blower responds to his or her value system in an organization where the value system has no role. Employees may view situations in terms of right or wrong; whereas, the employer may view situations in terms of the bottom line and financial profit. In essence, the purpose of the employee is to make sure that the business makes money. The end justifies the means. What can an organization do to support employees who want to do the right thing and view the organization as a fair and ethical place to work? Organizational justice is a concept that explores an employee's perception about whether or not an organization is fair in making decisions and/or the decision-making processes within organizations and the influence of those perceptions on behavior. Research has shown that organizational performance is improved as a result of improved ethical decision making (Hatcher 2002; Swanson 1999). Many have researched this area in hope of understanding why and how ethical decisions are made. By understanding the thought process behind an employee's decision making, human resource professionals may be able to create an environment that encourages ethical actions in the organization. "According to a national business ethics survey, 40 percent of professionals in human resource management and development roles must respond to their organization's ethical situations and in 70 percent of organizations, these same professionals are viewed as their organization's experts on ethics" (Joseph and Esen 2003).

As the business community embraces a global economy, there has been a push to speed up processes in order to make more profit. As a result, some employees see taking shortcuts as the only way to stay on top in a competitive environment. In order to accomplish ambitious goals, some may be tempted to participate in unethical behavior. Thus, organizational acceptance may be a factor as to why some people make unethical decisions. Research supporting the understanding of the ethical decision-making process may assist human resource professionals in creating an environment where employees are encouraged to make ethical decisions.

"The result of justice research suggests that the effects of injustice within organizations may be much broader than previously thought" (Cropanzano, Goldman, and Folger 2003). "Not only do victims directly affected by organizational injustice consider and sometimes take retributive actions, but so do neutral observers" (Kray and Lind 2002). As a result of the recent scandals, institutions of higher education have been challenged to teach students the virtues of ethical behavior and organizations have been challenged to create an ethical environment. Those who have devoted their time to researching the importance of organizational justice may be helpful to this cause.

CONCLUSION

Given the competitiveness in the world today, many people are tempted to go outside of the rules and regulations of society in order to get ahead. Although many would argue that traits such as honesty and credibility are valued, temptations have lured some to act irresponsibly. Unfortunately, when employees step forward and alert the organization of wrongdoings, they are labeled whistle-blowers and other negative labels are applied to them. Instead of being considered heroes for doing the right thing, they tend to be chastised, and some never fully recover from the experience. Once Cynthia Cooper realized her work had been done at Worldcom, she left and formed her own consulting firm. Cynthia decided to branch out and speak at corporations, associations, and universities about ethics and leadership and how it related to her situation at Worldcom (Amer 2005.)

The federal government recognized that big business may not always do the right thing. Therefore, it has introduced and implemented some regulations to level the playing field and allowed employees to come forth. The federal government and some states have passed legislation to protect employees who decide to become whistle-blowers. In order to avoid the costly expenses of litigation, many organizations are encouraged to draft policies that will help employees feel comfortable about coming forward to advise the senior management team and the outside world of fraudulent behavior occurring in companies today.

Organizational justice is a concept that explores an employee's perception about whether or not an organization is fair in making decisions and/or the decision-making processes within organizations and the influence of those perceptions on behavior. By understanding the thought process behind an employee's decision making, human resource professionals may be able to create an environment that encourages ethical actions in the organization.

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