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EVIDENCE OF THE IMPACT OF LEADER STATUS-RELATED BEHAVIORS ON ORGANIZATIONAL OUTCOMES IN FINANCIAL SERVICE FIRMS

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ABSTRACT

The U.S. financial services industry has been in a state crisis for three decades, precipitated by ethical misconduct within the industry. Regulatory and legislative changes have been introduced, yet the industry's ethical climate remains largely unchanged. Industry participants have acknowledged the limitations of external intervention and have called for change at the organizational level that specifically targets organizational leadership and culture to promote ethical and organizational citizenship behavior (OCB) outcomes. Deming proposed that firms may improve quality through comparative performance assessment with outside industries. This study is modeled after research conducted by Nembhard and Edmondson (2006) to determine whether significant organizational findings from the healthcare industry are reproducible in the financial services industry. This study used a multivariate, experimental design to examine the relationship of professional status and psychological safety on organizational citizenship behavior outcomes, while incorporating the moderating effect of leader inclusiveness. 247 current financial services professionals participated in this study. The study implemented a three-phased analytical process involving latent class analysis, recursive path analysis, and qualitative analysis. The results of the study indicate that professional status influences perceptions of psychological safety and is moderated by leader inclusiveness. The results also confirm that leader inclusiveness has a direct influence on OCB-voice and that psychological safety directly mediates OCB helping and organizational commitment outcomes. The findings of this study provide managerial insights on how organizational leaders in the financial services industry might effectively manage professional status differences to enhance employee perceptions of psychological safety and to stimulate organizational citizenship behavior in employees.

JEL: L290, M140, M190

KEYWORDS: Professional Status, Leader Inclusiveness, Team Leader Coaching, Psychological Safety, Financial Services Firms, Organizational Citizenship Behavior, Ethical Outcomes

INTRODUCTION

From the late 1970s to the present, troubles in the financial services industry have unfortunately made headline news. Potential remedies to halt these crises have typically relied on forces outside of the financial firms themselves (e.g., regulatory/SEC intervention). Despite ongoing indications from industry insiders that broad-based behavioral lapses in ethics have been a concern for financial services firms for years, few organizational considerations, including a need to revamp the leadership, management, and organizational dynamics of these firms have been prescribed. Until recently, limited attention has been paid to how ethical behavior is developed and fostered within these organizations. Over the past few years, new attention has been devoted to how organizational behavior may influence financial crises. For example, the leader-team member dynamic in financial services firms has not been studied, nor have the potential moderating influences of professional status, leader inclusiveness, and team leader coaching been examined. The possible mediating effect of psychological safety has not been examined or measured in conjunction with OCB. In addition, virtually no research has explored the effect of professional status differences on psychological safety and organizational citizenship behaviors.

This study was primarily a quantitative study with factors generated from qualitative research (Guba & Lincoln, 1994). The research questions derived for the qualitative component of the study were built in conjunction with the hypotheses and both sets of inquiries are rooted in the academic literature that corresponds to this study. Because this study is modeled after the Nembhard and Edmondson (2006) research on healthcare organizations, this study has incorporated hypotheses adapted from that original research for the quantitative portion. The qualitative research questions incorporated into the study were focused on gaining understanding of how financial professionals at various levels in their organizational hierarchies have experienced professional status differences in the workplace and of how financial professionals characterize the ethical behaviors and conduct of their superiors. This study seeks to provide new insight regarding possible antecedents to organizational citizenship behavior and is designed to answer the question: "Is professional status in financial services firms associated with employee perceptions of psychological safety and does this influence organizational citizenship behavior of employees?" Leader influence on follower behaviors has generated a considerable amount of scholarly activity (Yukl, 1999).

The usefulness of such a study is, therefore, twofold: 1) the project addresses a gap in the existing body of management literature, and 2) the results of the study may generate managerial insights regarding how leaders and managers in the financial services industry might effectively manage professional status differences to enhance employee perceptions of psychological safety and to generate stronger organizational citizenship behaviors. This paper is organized in the following way: It opens with a review of related literature, then describes the data and methodology used in the study. It then presents and discusses the results of the study and concludes with a summary of findings, managerial insights and applications, and possible future related studies.

LITERATURE REVIEW

Both the financial services and the healthcare industries are characterized by notable professional status differences within work groups that influence organizational dynamics and employee behavior (Ho, 2009; Nembhard & Edmondson, 2006). Status characteristic theory, social identity theory, social exchange theory, and leader-member exchange theory provide insights into the impact of professional status on organizational life and on member social dynamics. Status characteristic theory was conceived by social scientists as a paradigm through which to facilitate understanding of status organizing processes that occur in social groups (Berger, Cohen, & Zelditch, 1972; Berger, Rosenholtz, & Zelditch, 1980). A consideration of the influence of professional status is valuable because related organizational research has also demonstrated that unequal status among organizational members can influence organizational members to withhold information in the workplace and can influence workplace participants to speak less (Argyris, 1986; Kirchler & Davis, 1986; Pagliari & Grimshaw, 2002; Vinokur, Burnstein, Sechrest, & Wortman, 1985; Weisband, Schneider, & Connolly, 1995). In understanding how employees self-identify with social groups in organizational environments, social identity theory offers important insights regarding how status perceptions shape interpersonal and group dynamics in workplace settings. Social identity theory explores intra-group relations, i.e., how people come to perceive themselves as "members" of a particular social group (Tajfel & Turner, 1979; Turner, Oakes, Haslam, & McGarty, 1994).

Developed by Blau (1964), social exchange theory examines interpersonal relationships and makes the claim that relationships fall into two general categories: economic exchanges and social exchanges (Blau, 1964; Bishop, Scott, & Burroughs, 2000). The theory suggests that people develop transactional (economic) or trust (social) relationships based on their experiences with others. Leader-Member Exchange Theory (LMX) was initially presented by Graen (1976) and is commonly referred to as a relationship-based approach to leadership. Since its introduction, LMX theory has generated considerable interest in the academic community and has gone through four notable shifts in its development to the current understanding of LMX (Graen & Uhl-Bien, 1995) in order to arrive at the current perspective on the theory. The LMX theory is a theory of leadership that focuses on dyadic or "two-way" working relationships that develop between supervisors and subordinates.

Both industries have turned in poor quality and poor performance significant enough to have been labeled as system-based crises (Dudley, 2014; IOM, 1999). Healthcare, according to Nembhard and Edmondson (2006), needed the benefit of greater employee willingness to engage in continuous improvement efforts. Financial services firms, according to industry leaders, would benefit from stronger pro-social, ethical behavior (Dudley, 2014). Though the issues facing these industries appear to be different, they find a common foundation in the area of organizational citizenship behavior.

Organizational citizenship behavior is a multidimensional construct that was initially explored by Organ (1977), who introduced the idea of discretionary contributions from workers, and Bateman and Organ (1983), who developed the idea of qualitative performance (Organ, Podsakoff, & MacKenzie, 2006). Organ, Podsakoff, and MacKenzie (2006) defined organizational citizenship behavior as "individual behavior that is discretionary, not directly or explicitly recognized by the formal reward system, and, in the aggregate, promotes the efficient and effective functioning of the organization" (p.8). This definition of organizational citizenship behavior is non-specific and encompasses any and all behaviors that promote the efficient and effective functioning of an organization. Podsakoff, MacKenzie, Paine, and Bacharach (2000) supported this idea that organizational citizenship behavior is expansive; in a review of the academic literature on OCB, these authors distinguished over thirty different forms of organizational citizenship behavior that have been studied and measured. Organ, et al. (2006) identified seven common "themes" or dimensions to OCB, which are presented in the table below: Helping, Sportsmanship, Organizational Loyalty, Organizational Compliance, Individual Initiative, Civic Virtue, and Self-Development (p. 297). Leader inclusiveness and psychological safety provide additional insights into the Nembhard and Edmondson study results as well as substantiate the inclusion of these variables in this study's research design.

Leader inclusiveness is a construct that was introduced by Nembhard and Edmondson in conjunction with their 2006 study on leader behaviors in interdisciplinary healthcare teams working in neonatal intensive care units. The authors evaluated the words and actions of leaders with high professional status with the intent of understanding how these words and behaviors informed leader-team member interactions and employee willingness to engage in quality improvement efforts. Leader inclusiveness was then defined as: "Words and deeds exhibited by leaders that invite and appreciate others' contributions that occur in environments characterized by status or power differences" (Nembhard & Edmondson, 2006, p. 947). Leader inclusiveness also incorporates attempts made by high-status leaders to include those team members in decisions and discussions who might otherwise be left out of the discussion or discouraged from sharing. The hallmark of this construct rests on the notion that leader inclusiveness occurs in environments characterized by notably unequal status distribution among members. Leader inclusiveness may incorporate coaching, participative leadership, consultation, and feedback. Nembhard and Edmondson (2006) stated that the goal of their research involved the contribution of knowledge regarding the role of status in shaping perceptions of psychological safety and, more broadly, the conditions that support improvement and learning in cross-disciplinary teams (p. 944). Empirical research suggests that when the insights and expertise of team members at varying levels is ignored or overlooked, group and organizational goals suffer (Littlepage, Robinson, & Reddington, 1997). Specifically, organizational innovation and improvements do not flourish as they might if lower-level employees invited to share opinions and have those opinions incorporated (Nemeth, 1986).

Psychological safety was first conceptualized by Kahn (1990) as a finding from an exploratory qualitative research study he conducted on personal engagement and disengagement at work. In this study, he identified three contributing psychological conditions that influence employee psychological engagement:

meaningfulness, safety, and availability. He also asserted that psychological safety was an important antecedent to psychological engagement. According to Kahn (1990), "Supportive, resilient, and clarifying management heightens psychological safety" (p. 711). Argyris (1986; 1993) alluded to this idea when he wrote about the defensive posturing that goes on in within organizations. He suggested that an individual's tacit beliefs regarding interpersonal exchanges in the workplace ultimately inhibit learning behaviors and promote organizational ineffectiveness and he asserted that leaders, by being consistent across espoused values, words, and actions, could reduce these defensive orientations in workplace settings. Altering leadership behavior in order to reduce status discrepancies and create psychologically safe work environments may stimulate greater employee engagement and "helping" behaviors from employees.

DATA AND METHODOLOGY

The primary research question of this study is: "Is professional status in financial services firms associated with employee perceptions of psychological safety and does this influence employee organizational citizenship behaviors (OCB)?" This study is modeled after Nembhard and Edmondson's 2006 study in healthcare that found that a leader's handling of his/her own professional status can have a decisive influence on employee engagement and improvement efforts. Nembhard and Edmondson's research affirmed that high-status leaders use of encouraging and invitational words and behaviors contributed to stronger employee perceptions of psychological safety. Psychological safety, in turn, resulted in notably higher employee engagement in quality improvement efforts. This study attempts to determine whether these findings are reproducible in another industry and a different type of organization, namely a financial services organization (Deming, 1986). In lieu of improvement efforts, the output (dependent variable) in question in this study is organizational citizenship behavior, a construct that incorporates, among other things, improvement. Organizational citizenship behavior (OCB) was selected because it specifically addresses pro-social and moral obligation aspects of employee organizational behavior (Organ, Podsakoff, & MacKenzie, 2006). This study was conducted as a quantitative research study with a qualitative component and, therefore, included hypotheses derived for the quantitative portion of the study and research questions related to the qualitative portion of the study. The Nembhard-Edmondson 2006 study that inspired this project was a mixed-method study. Because this study is modeled after Nembhard and Emondson's (2006) research, this study has incorporated several hypotheses adapted from that original research for the quantitative portion and has introduced an additional hypothesis. The research questions derived for the qualitative component of the study were built in conjunction with these hypotheses and both parts of the survey are rooted in the academic literature that corresponds to this study.

The benefit of including the quantitative portion of the research is that this method permits the use of multiple variables; it can help to identify the strength of relationships between variables, and it permits the researcher to generalize from a sample to the larger population (Creswell, 2003, p. 18). The benefit of the qualitative portion of the research is that it offers the researcher an opportunity to understand how individuals make sense of their environments and their experiences (Lincoln, 2005). Following Nembhard and Edmondson, the present study also included a three-phase data collection process, structured somewhat differently: 1) In phase one, two preliminary 20-minute interviews with senior managers in financial services were conducted in order to confirm the topic and wording presented in the qualitative portion of the survey. 2) In phase two, a pilot study was conducted with 16 professionals working in various financial services firms (commercial banking, private equity, credit union, and financial consulting). 3) In phase three, the survey was electronically distributed to a sample population that only included people working in financial services firms and who functioned in financial services roles. The surveys were completed during April and May of 2015. A cross-sectional electronic survey was created that incorporated a quantitative portion that consisted of 42 questions over ten measures. Two open-ended qualitative survey questions were also included as part of the survey instrument to address content areas that the quantitative portion of the survey was unable to address. The survey was distributed to 270 financial services professionals, and 247 responses were received for a response rate of 91.48%.

RESULTS AND DISCUSSIONS

The financial services industry has suffered from professional misconduct due to participants (individuals/groups/and firms) in every sphere of the industry whose behavior has broken trust with the public and brought harm to customers and employees alike (Black, 2010; Dudley, 2014; EIU, 2013; Tenbrunsel & Thomas, 2015; Santoro & Strauss, 2013). The healthcare industry, dealing with the consequences of thousands of avoidable errors and avoidable deaths, has been attempting to remedy similar concerns about its performance (Nembhard & Edmondson, 2006; IOM, 1999). Deming (1986) noted, comparative performance assessment across industries may provide insight into how organizations might advance quality improvement efforts. Though dissimilar in context, when these two industries' performance failures are viewed through the lens of organizational behavior, similarities between their crises begin to emerge. With this in mind, the current study was modeled after Nembhard and Edmondson's 2006 study exploring professional status, psychological safety, and engagement in quality improvement efforts in healthcare. This study was designed to provide new insight into potential antecedents to both psychological safety and organizational citizenship behavior (OCB) as well as to answer the question: "Is professional status in financial services firms associated with employee perceptions of psychological safety and does this influence organizational citizenship behavior of employees?" Within the existing body of research on antecedents to OCB, the potential moderating influences of professional status, leader inclusiveness, and team leader coaching have not yet been examined, nor has the possible mediating effect of psychological safety on OCB been explored.

In Nembhard and Edmondson's original 2006 study, job titles were utilized by the authors in order to ascertain status-level of their survey respondents. In the current study, this approach was not utilized due to the ambiguity and disparate meanings of equivalent job titles (e.g., financial analyst, senior analyst, etc). For this reason, a latent class analysis was conducted in order to determine whether homogenous status-based subgroupings might emerge within the sample population. The latent class analysis results confirmed that there were homogeneous subgroupings within the sample population that were distinctly "higher status" and "lower status" in nature. Based on the model fit criteria, ease in interpretability, and parsimony, the sample population (Lanza & Rhoades, 2013; Nylund, Asparouhov, & Muthen, 2007) was divided into one of two distinctive status classes.

As shown in Table 1, the statistical results of the path analysis indicate that for this sample population, professional status was significantly associated with employee perceptions of psychological safety, which supports the Nembhard and Edmondson 2006 findings. At a slightly higher p value (in the "exploratory" range) years in current work group ($p < .071$) was also positively associated with psychological safety. The path analysis results also suggest that the interaction between professional status and leader inclusiveness and between professional status and team leader coaching is significantly associated with OCB. In the case of leader inclusiveness, the interaction effect of professional status on leader inclusiveness was positively associated with organizational commitment ($p < .023$). The interaction effect of class and team leader coaching showed a negative and statistically significant association with OCB-Voice and with organizational commitment, suggesting that every unit of change in team leader coaching for high status (class = 1) results in a negative change in OCB-Voice relative to the low status (class = 0) people. Higher responses in OCV-Voice were evidenced in low status people as team leader coaching increases and less for the higher status people. In other words, the higher the person's status, the less TLC is able to predict OCB-Voice or organizational commitment. Professional status interacts with team leader coaching differently for the low professional status class than for the high professional status class.

Table 1: Results - Recursive Path Analysis

Direct Effect Paths	Unstandardized Coefficient Estimate	Standard Error (SE)	Unstandardized 95% CI [Lower, Upper]	p	Standardized Estimates
Psych_Safety → OCB-V	0.914	0.549	[-0.363, 1.835]	***0.10***	0.104
Social_Desire_Bias → OCB-V	0.813	0.843	[-0.925, 2.289]	0.335	0.062
Leader_Inc → OCB-V	**1.98**	**0.615**	**[0.789, 3.178]**	**0.001**	**0.286**
Team Leader Coach → OCB-V	**2.528**	**0.629**	**[1.193, 3.641]**	**0.000**	**0.399**
Yrs_in_Current Group → OCB-V	0.03	0.095	[-0.175, 0.201]	0.756	0.018
Class x Leader Inc → OCB-V	0.491	1.098	[-1.745, 2.560]	0.655	0.143
Class x TLC → OCB-V	**-1.733**	**0.899**	**[-3.352, 0.230]**	**0.054**	**-0.515**
Class x Yrs_in_Current_Grp → OCB-V	0.022	0.157	[-0.289, 0.322]	0.887	0.011
Class → OCB-V	5.144	6.556	[-6.619, 19.015]	0.433	0.286
Psych_Safety → OCB-H	**2.067**	**0.892**	**[0.267, 3.827]**	**0.02**	**0.179**
Social_Desire_Bias → OCB-H	0.703	1.122	[-1.628, 2.883]	0.531	0.041
Leader_Inc → OCB-H	1.472	0.915	[-0.378, 3.129]	0.108	0.162
Team Leader Coach → OCB-H	**2.828**	**0.895**	**[1.013, 4.443]**	**0.002**	**0.34**
Yrs_in_Current Group → OCB-H	0.073	0.142	[-0.227, 0.331]	0.607	0.034
Class x Leader Inc → OCB-H	0.571	1.468	[-2.110, 3.432]	0.697	0.127
Class x TLC → OCB-H	-0.789	1.201	[-3.159, 1.631]	0.511	-0.178
Class x Yrs_in_Current_Grp → OCB-H	-0.053	0.234	[-0.486, 0.418]	0.821	-0.19
Class → OCB-H	1.176	8.838	[-14.334, 19.954]	0.894	0.05
Psych_Safety → ORG COM	**0.651**	**0.34**	**[-0.038, 1.314]**	**0.055**	**0.127**
Social_Desire_Bias → ORG COM	**-0.995**	**0.381**	**[-1.810, -0.322]**	**0.009**	**-0.13**
Leader_Inc → ORG COM	0.572	0.35	[-0.026, 1.333]	***0.10***	0.142
Team Leader Coach → ORG COM	**1.609**	**0.293**	**[0.943, 2.110]**	**0.000**	**0.435**
Yrs_in_Current Group → ORG COM	0.085	0.058	[-0.029, 0.196]	0.145	0.089
Class x Leader Inc → ORG COM	**1.291**	**0.567**	**[0.097, 2.325]**	**0.023**	**0.646**
Class x TLC → ORG COM	**-1.102**	**0.468**	**[-1.936, -0.152]**	**0.018**	**-0.56**
Class x Yrs_in_Current_Grp → ORG COM	-0.004	0.122	[-0.244, 0.238]	0.973	-0.003
Class → ORG COM	-1.363	2.941	[-6.881, 4.668]	0.643	-0.13
Social_Desire_Bias → Psych Safety	**-0.207**	**0.073**	**[-0.351, -0.063]**	**0.004**	**-0.138**
Leader_Inc → Psych Safety	**0.380**	**0.079**	**[0.211, 0.517]**	**0.000**	**0.482**
Team Leader Coach → Psych Safety	0.106	0.069	[-0.026, 0.238]	0.121	0.147
Yrs_in_Current Group → Psych Safety	**0.026**	**0.014**	**[-0.007, 0.049]**	**0.071**	**0.14**
Class x Leader Inc → Psych Safety	-0.194	0.118	[0.356, 2.508]	***0.10***	-0.496
Class x TLC → Psych Safety	-0.050	0.099	[-0.407, 0.059]	0.613	-0.13
Class x Yrs_in_Cur_Grp → Psych Safety	-0.026	0.026	[-0.230, 0.136]	0.305	-0.112
Class → Psych Safety	**1.449**	**0.54**	[-0.082, 0.023]	**0.007**	**0.706**

This table shows results of recursive path analysis.

This study makes an important contribution and both directly and indirect supports several important empirical studies which explored the relationships between ethical leadership, leader behaviors, work climate/psychological safety, and OCB. The most novel contribution pertains to the findings that affirm the relationships between leader inclusiveness and team leader coaching and OCB. In addition, the interaction effect of professional status on these leader behaviors provides specific managerial insight regarding how managers and organizational leaders might better navigate discrepancies in professional status to draw out and elicit stronger organizational citizenship behaviors from employees. This study found a significant association between employee perceptions of psychological safety and OCB and demonstrated support for the mediating effect of psychological safety on every type of OCB evaluated in this study. Finally, this study is unique in the body of existing research in that it explores the respective relationships between professional status, leader behaviors (inclusiveness and team leader coaching), psychological safety, and OCB within the domain of financial services firms.

CONCLUSION

The financial industry, like the healthcare industry, has been fraught with performance issues. It is also, like the healthcare industry, is an industry deeply influenced by status and hierarchy (Ho, 2009; Groysberg, Polzer, & Eifenbein, 2011). This study sought to explore how professional status level in the workplace may act as a moderating variable to influence employee perceptions of psychological safety. Related to this, the study also sought to evaluate the impact of leader inclusiveness as a moderator of psychological safety. A cross-sectional electronic survey incorporating elements of the original Nembhard and Edmondson 2006 study was created that incorporated a quantitative portion that consisted of 42 questions over ten measures. Two open-ended qualitative survey questions were also included as part of the survey instrument to address content areas that the quantitative portion of the survey was unable to address. The survey was distributed to 270 financial services professionals, and 247 responses were received for a response rate of 91.48%. Possible limitations of the study include sampling error, measurement error, common-method variance, and the cross-sectional design of the study.

There is a risk of sampling error any time a sample is drawn that is designed to represent a broader population (Doane & Seward, 2011). Sampling error can occur when the population that comprises the sample does not adequately represent the broader population in question. In the case of path analysis, measurement error may result in under- or over-estimation of path coefficient which can ultimately distort findings that result in erroneous conclusions regarding the statistical significance of relationships between model variables or the appropriateness of the model itself (Cole & Preacher, 2014). According to Cole and Preacher (2014), one method for controlling the effects of this is to limit the complexity of the model by reducing the number of variables. In an effort to control the effects of this, this model was contained to a moderate number of variables and resulting in a model with attenuated complexity. Common method variance is a type of systematic error that may be introduced into the data analysis that occurs when researchers collect all of their data from the same survey instrument (Richardson, Simmering, & Sturman, 2009); common method variance needs to be addressed because failure to do so can result in misleading conclusions. Cross-sectional studies are like "snapshots," capturing the sentiments of survey respondents at just a moment in time. By their very nature, therefore, cross-sectional studies present challenges if a goal of the research in question is to understand how relational dynamics create workplace climates and foster desirable organizational outcomes, as was the case with this study. In the future, a staged data collection or a longitudinal study may be warranted.

The study confirmed the hypothesis that higher status professionals are likely to experience greater psychological safety in the workplace. The findings from this study suggest that leader inclusiveness and team leader coaching, either directly or when moderated by professional status, can influence both employee perceptions of psychological safety and organizational citizenship behavior outcomes. The findings provide managerial insight regarding dispositions that managers can take towards work group members to foster both a greater sense of psychological safety and organizational citizenship behaviors. Two important caveats to this study, however, are that higher psychological safety has been demonstrated to elicit higher levels of unethical behavior in certain environments (Pearsall & Ellis, 2011) and that OCB may be more closely associated to counterproductive work behaviors than has been understood in the management literature (Klotz & Bolino, 2013). Future studies that explore the relationship between psychological safety and OCB measures may be enhanced with consideration of these two phenomena.

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