Modelling the influence of CEO values and leadership styles on financial decision making

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Abstract

**Purpose** – The purpose of this paper is to develop a model for examining the influence of CEO values on financial decision making.

**Design/methodology/approach** The approach used in this paper involves an examination of the literature and in particular: constructs such as the values that act as lenses, or filters to determine the amount and type of information that leaders process, as well as the personal values of CEOs and how they influence leader characteristics, and the leadership style adopted by CEOs.

**Originality/value** - The model identifies the importance of each of these components and the relationship they have to financial decision making in the context of an organization. This has implications for the selection and retention of leaders in the organization, ultimately impacting the teaching of leadership in business schools.

**Keywords:** Espoused values; leadership styles; financial decision making; CEOs; ethical leadership.

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**PsycINFO Classifications:** 3430  
**FoR Codes:** 1501; 1702  
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Introduction

The influence of Chief Executive Officer (CEO) values on financial decision making has been highlighted by events surrounding a number of high profile corporate scandals such as Enron, Arthur Andersen, WorldCom, Siemens, HIH, OneTel and many others (Brown & Trevino 2006; Tanner, Brugger, van Schie & Lebherz 2010; Weber 2010). It has been suggested that “the Enron scandal grew out of a steady accumulation of habits and values and actions that began years before and finally spiraled out of control” (Elkind & McLean 2003, p. 132). Seeger and Ulmer (2003) suggest that the Enron case has important lessons to teach regarding the responsibilities of leaders to communicate and model appropriate values in order to create a moral setting within an organization, with such a setting promoting early recognition, communication and resolution of problems as well as enhancing decision making.

While administrators frequently report accounting irregularities as the cause of corporate failure (Vitorovich 2017), it could be argued that the underlying cause of these outcomes is a process of financial decision making. While it is acknowledged that some CEOs have been prosecuted for their poor financial decisions leading to accounting irregularities and corporate failure, many suffer little or no consequence. Furthermore, while the personal characteristics of CEOs have been linked to scandals (Boddy 2017), businesses have done little to address the financial decision making process or indeed the characteristics that a CEO should possess prior to being appointed to their position (Ferguson 2013). Whether CEOs should be screened accordingly is further debated in the academic literature (Boddy 2017; Marshall, Ashleigh, Baden, Ojiako & Guidi 2015; Smith & O. Lilienfeld 2013). The corporate collapse of ABC Learning in Australia shows “what happens when a company ignores the fundamentals of sound accounting” (CPA Australia Ltd 2010) and when financial decisions are made with little regard to ethical responsibilities.

Schein (1992) proposed that leaders play a central role in shaping and controlling organizational culture, while Berson, Oreg and Dvir (2008) held that the particular direction and manner in which an organizational culture is modified is likely to reflect the leader's personal value system. Byrne (2002) suggested that “as a result of the events which occurred at Enron the focus shifted from the CEO pay packet and stock price of the firm to corporate values” (p. 68), which are enforced and exemplified by the CEO, and impact financial decision making.

This paper presents a model that identifies the values of CEOs, their leadership styles, and the relationship these have to financial decision making in the organization and explores the various components of this model.

The next section begins with a discussion of the meaning of financial decision making in relation to the proposed model. This is followed by an overview of the various definitions of ‘values’ and a discussion of the relationship of values to human behavior. Next, the current understanding of what is meant by leadership is explored. The paper concludes by considering the model in terms of its contribution to theory and potential benefits to organizations.

Financial decision making

‘Decision making’ has been defined by Peters, Finucane, MacGregor and Slovic (2000) as “a choice between two or more options or alternatives” (p. 144). The term ‘financial’ has been defined in the literature by Moles and Terry (1997) as “relating to
finance (cf. money)” and simply defined as “pertaining to monetary receipts and expenditures: pertaining or relating to money matters; pecuniary: financial operations” (Dictionary.com 2017). The economic well-being of the organization, is commonly referred to as the company’s financial position (BusinessDictionary.com). Thus, in the context of the model, ‘financial decision making’ is defined as “choosing a course of action affecting the financial performance of the organization”.

According to Boatright (2007) decision making in business should involve an integration of three points of view: the economic, the legal and the moral. Carroll (1979) proposed that within the economic point of view, a business has the responsibility to produce goods and services that society wants and to sell them at a profit. Carroll (1979) also held that the legal point of view involves laying down the laws and regulations within which a business is expected to operate its economic activity. In addition, Boatright (2007) emphasized that the moral point of view is doing ‘what is right’. Rest (1986) expanded this view of moral decision making using four basic components: identifying the moral nature of an issue; making a moral judgment; establishing moral intent, and engaging in moral action. Although the moral point of view is ill defined due to “the first two categories embody(ing) ethical norms” (Carroll 1979, p. 500), Boatright (2007) held that a decision made within an organization should not be based on a trade-off between the three views but be ethically defensible while at the same time satisfying the legitimate demands of economic performance and legal obligations. This is also supported by the earlier writings of Friedman F (1970) which state:

*a corporate executive is an employee of the owners of the business. He has direct responsibility to his employers. That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom* (p. 17).

An example of financial decision making which did not incorporate the integration of all three points of view is the Enron failure of 1997 which was reported in the Associated Press (2005) as follows:

*Finance executive Andrew Fastow created his first partnership designed to kept debt off Enron’s balance sheet, a first step toward similar financial moves to hide debt and inflate profits that lead to Enron’s downfall.*

Although the partnership was established by the finance executive, the CEO supported his actions. This financial decision can be examined by applying Boatright’s three points of view of decision making. First, the economic point of view allowed Enron to effectively ‘hide’ the partnership transactions from Enron’s balance sheet which resulted in the net assets of the company being overstated, allowing them to borrow more funds. Enron also complied with the legal view, as the partnership accounts were not required to be consolidated with the company’s accounts. However from the moral view it was clearly a case of not doing ‘what is right’ as debt was effectively ‘hidden’ giving a false representation of profits. This example at Enron suggests that the values of the CEO impact on the financial decisions made in an organization. This is supported by Green and Weber (1997) who concluded that higher levels of moral reasoning lead to more ethical behavior. Thus the model provides a connection between financial decision making and the values of the individual.

**Values and human behavior**

In developing the model, the definition of values includes that which the CEO espouses as being important and how this influences the financial decisions made for the organization. A number of definitions of ‘values’ have been suggested with one of the
earliest definitions provided by Klucklohn (1951 p. 395) who stated that “a value is a conception, explicit or implicit, distinctive of an individual or characteristic of a group, of the desirable, which influences the selection from available modes, means, and ends of action” (cited in Hitlin & Piliavin 2004, p. 362). This definition of values was expanded by Rokeach (1973) to encompass “enduring beliefs that a specific mode of conduct is personally or socially preferable to an opposite or converse mode of conduct or end-state of existence” (p. 5). Ravlin (1995) provided a more personal definition by mooting that values were “a person’s internalized belief about how he or she should or ought to behave” (Meglino & Ravlin 1998, p. 354). Bringing together these suggestions, values can be summarized as what people believe to be important; that is, they are the basic principles that guide beliefs, attitudes and behavior (Hood 2003, p. 263). Thus “values are at the core of who people are” (Posner 2010, p. 457) which influences the choices that are made, the people that are trusted and the way time and energy are invested. Values develop by considering the actions of the past, the connection to others and aspirations for the future, and a person is capable of self-creation by constantly evolving as displaying qualities of “the poetic self” (Freeman & Auster 2011). Thus, the model development considered whether these values were used in the financial decision making process.

According to the views of Rokeach (1973) values applied to individuals are more appropriate for social analysis than values placed on an object or outcomes. Rokeach (1973) subdivided the values applied to individuals into terminal and instrumental values. Terminal values, or the ultimate objective of values, are pursued by individuals to achieve a desired end result (such as wisdom or a comfortable life) whereas instrumental values are related to the ways that people behave: modes of behavior. Rokeach proposed that the relationship between the two categories of values is that instrumental values describe behaviors that facilitate the attainment of terminal values. He highlighted the importance of values because of their direct effect on human behavior, stating that “values directly affect behavior in that they encourage individuals to act in accordance with their values” (Rokeach 1973 p. 5). He further divided instrumental values into two types: moral values and competence values. Moral values refer to instrumental values which have an interpersonal focus which, when violated, result in feelings of guilt for not doing the right thing. Competence values, on the other hand, have a personal rather than an interpersonal focus, and do not seem to be concerned with morality. When a competence value is violated this leads to feelings of personal inadequacy and shame as opposed to feelings of guilt about doing the wrong thing. In other words, "behaving honestly and responsibly leads one to feel that he is behaving morally, whereas behaving logically, intelligently or imaginatively leads one to feel that he is behaving competently" (Rokeach 1973 p. 8). The 18 instrumental values listed by Rokeach were developed from Anderson’s (1968) list of 555 personality trait words. As Rokeach was interested in positive values that would be suitable for self-attribution he quickly reduced Anderson’s list of 555 to 200. Then the final 18 values were selected from this list by using the following criteria:

- retaining only one value by eliminating synonyms or near synonyms
- retaining those judged to be “maximally different from or minimally inter-correlated with one another”
- retaining those judged to represent the most important values in American society
- retaining those deemed to be maximally discriminating across social status, sex, race, age, religion, politics etc.
- retaining both variables, and other have scored low on one and high on the other (Rokeach 1973 p. 29)

Even though Rokeach did separate instrumental values into two categories, moral and competence, he did not classify each of the 18 instrumental values into these categories. However, Weber (1990) extended Rokeach’s work by classifying the instrumental values into the subcategories (moral and competence) after presenting the 18 values to 103 full-
time MBA students from a large US university and asking them to consider whether the value was primarily competence, primarily moral, both, or neither. Weber performed a factor analysis on all 36 values when assessing the values of an adult population using the modified Rokeach Value Survey (RVS). Using the traditional voting method a summary orientation for each value was found. The results of this method were summarized by Weber (1990 p. 45) and are presented in Table 1 on the following page.

Table 1:
Rokeach Value Survey (RVS) as modified by Weber (1990, p.45)

<table>
<thead>
<tr>
<th>Values</th>
<th>Competence</th>
<th>Moral</th>
<th>Neither</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ambitious</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Broadminded</td>
<td>x</td>
<td></td>
<td></td>
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<tr>
<td>Capable</td>
<td>x</td>
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<tr>
<td>Cheerful</td>
<td></td>
<td>x</td>
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<td>Clean</td>
<td></td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Courageous</td>
<td></td>
<td>x</td>
<td></td>
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<tr>
<td>Forgiving</td>
<td></td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Helpful</td>
<td></td>
<td>x</td>
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<tr>
<td>Honest</td>
<td></td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Imaginative</td>
<td></td>
<td>x</td>
<td></td>
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<tr>
<td>Independent</td>
<td></td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Intellectual</td>
<td></td>
<td>x</td>
<td></td>
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<tr>
<td>Logical</td>
<td></td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Loving</td>
<td></td>
<td>x</td>
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<tr>
<td>Obedient</td>
<td></td>
<td>x</td>
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<tr>
<td>Polite</td>
<td></td>
<td>x</td>
<td></td>
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<tr>
<td>Responsible(*)</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Self-controlled</td>
<td></td>
<td></td>
<td>x</td>
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</tbody>
</table>

* Rokeach states this as moral

The empirical classifications of Rokeach’s values (from Weber, 1990) which are the essence of value theory, are used in the model to identify instrumental and terminal values. Thus, this provides the identification of the values that influence a CEO when making financial decisions. Meglino and Ravlin (1998) asserted that values have two main paths by which they affect outcomes. First they can have a direct effect on an individual’s outcomes or, second, they may affect outcomes to the extent that they are similar with the values of an "other". If the CEOs can pass their values on to their followers and achieve value congruence then the outcome of improved financial decision making is more likely to be achieved. Meglino and Ravlin (1998) speculated that outcomes and behavior should be expected to reinforce an individual's value structure. They further speculated that if this reinforcement should fail to occur, then the expectation is that the individual’s values would change. Thus the model in this paper considers financial decision making as the outcome of CEO values. As a result, the values espoused by a CEO can assist in determining the leadership style of a CEO.

Ethics and moral reasoning

Kohlberg (1968) investigated moral development through the interpretation of human behavior. Moral development was initially defined by Piaget, a child psychologist. Rest (1986) summarises Piaget’s work in the statement:

According to Piaget (e.g., 1970), cognitive development takes place because humans are active interpreters of their experiences...When new experiences cannot be assimilated into existing categories of experience or when expectations are
violated, humans attempt to revise their categories and expectations so that experience will once again make sense and be predictable (p. 32).

Piaget used a two stage model which was refined and researched by Kohlberg. Kohlberg’s (1968) study is representative of the changes that occur in a person’s structure of thought or moral reasoning. Kohlberg’s study was representative of the changes that occur in a person’s structure of thought or moral reasoning. In analyzing responses to moral problems Kohlberg showed that moral reasoning developed over a life time through three levels with each level comprising two stages, resulting in a series of six stages.

The three levels are pre-conventional, conventional and post conventional. The second level incorporates stage four which is titled the ‘law and order’ orientation (Kohlberg & Hersh 1977, p. 55), within which stage the leader would base the decisions made on complying with the law. The third level is the principled level at which there is a clear effort to define moral levels and “principles which have validity and application apart from the authority of the groups or persons who hold them and apart from the individual’s identification with those persons or groups” (Kohlberg 1968 p. 24). Kohlberg proposed that once a person reached a particular stage of moral development, it was not possible for the person to regress to previous levels and thus the person would either remain at that level or move forward. Kohlberg found that “youths who understand justice act more justly, and the man who understands justice helps create a moral climate which goes far beyond his immediate and personal acts” (Kohlberg 1968, p. 30).

Kohlberg also suggested that to be able to make an ethical decision an individual must have a level of moral reasoning which resides in stage two as a minimum or preferably stage three. According to Trevino (1986), Kohlberg proposes that an individual’s level of cognitive moral development strongly influences the person’s decision regarding what is right or wrong; the rights, duties, and obligations involved in a particular ethical dilemma. Kohlberg’s model provides a theoretical basis for understanding how managers think about ethical dilemma (p. 602).

Thus a limitation of Kohlberg’s model is that the test of moral judgment is limited to how individuals think about moral dilemmas not what they would actually do in a particular decision situation. Thiel, Bagdasarov, Harkrider, Johnson and Mumford (2012) support the premise that ethical decision-making is grounded in moral reasoning where the leader must first recognize the existence of an ethical problem and then apply their moral principles to that ethical situation. Weber (2010) developed a new moral reasoning instrument known as the Moral Reasoning Inventory (MRI). According to Weber and McGivern (2010) the MRI “could be a useful tool for those seeking to enhance ethical decision making and performance in business” (p. 162), because it used more than one measure to determine the individual’s decision-making responses. Thus, the application of this instrument may be considered useful in showing a CEO’s level of moral reasoning.

Kohlberg and Hersh (1977) asserted that moral judgment is a necessary but not sufficient condition for moral action because other variables come into play such as emotion, and a general sense of will, purpose or ego strength (p. 58). The MRI uses two ratings which measure the respondent’s strength of belief and the importance of the reason in making the decision. Analysis of research data provided supported for "the effectiveness of the MRI as the basis for a methodology for the study of moral-based decisions made by business managers in organizational settings" (Weber & McGivern 2006, p. 23). However the MRI is not capable of placing a manager or CEO within one of the six levels of the moral reasoning, as it can only place them at stages 1/2 (combined), stage 3, stage 4 and stage 5/6 (combined). This is because stages 1 and 2 are combined into stage 1/2 and stages 5 and 6 are combined into stage 5/6. This was directly related to the purpose of the instrument as being to determine a "consensus on how the decision (on a moral dilemma) should be
resolved" in a business context (Weber & McGivern 2006, p.23). Collins (2010) asserted that the MRI requires further development due to the increasing need for an instrument which is easy to implement and which can link specific options to specific levels of moral reasoning.

When individuals develop morally they do not just increase their knowledge of cultural values; this development is representative of the transformations that occur in a person's structure of thought (Kohlberg & Hersh 1977). It has been suggested that it is difficult to transcend the first four stages of moral development, with Kohlberg claiming that less than 20% of American adults reach the principled level of development (Trevino 1986, p. 606). Weber (1991) adapted Kohlberg's model to include dilemmas from a business organization context, with the follow up questions being adapted to focus on key organizational values and the scoring of the test made simpler, yet still retaining its reliability. According to Weber (1991) this adapted version allowed a "heightened understanding of managers' ethical decision-making processes (which) could lead to greater predictability of managerial and organizational ethical behavior" (Weber 1991, p. 308). Weber and McGivern (2010) further developed the adapted Kohlberg model into the MRI to enable more than one measure to determine the individual's decision-making responses.

Although the incorporation of the MRI in the model would not enable the level of moral reasoning to be determined, it would allow a comparison to be made of how individuals responded in relation to their personal profiles. The MRI could also determine whether there is a consensus on how a moral based problem would be solved. Although the CEO would be unable to be placed in the extreme levels of the moral reasoning table, the level that the CEO is placed within the model would indicate the level of moral reasoning the CEO employs when making financial decisions. For example a placement at stage four would indicate that the CEO is making the decision based on the legal point of view, whereas if the placement is at stage five/six it is possible that the CEO has reached the principled level of moral development and the decisions made are not being influenced by outside sources; the moral point of view of decision-making.

**Understanding leadership styles**

Before there can be any discussion of leadership theories and styles, it is important to arrive at an understanding of what is meant by leadership. This is difficult given that the literature in the area has focused on describing 'leadership' rather than attempting to define it. Indeed to this end Storr (2004) suggested that there was "no definitive, robust and conclusive definition of leadership" (p. 416). Gini (1997) describes leadership as "a delicate combination of the process, the techniques of leadership, the person, the specific talents and traits of a/the leader, and the general requirements of the job itself" (p. 324).

Even though an understanding of the definition of leadership is difficult, the definition that adopted for the conceptual model presented in this paper is that of Northouse (2013) who states, “Leadership is a process whereby an individual influences a group of individuals to achieve a common goal” (p. 5).

For leadership to exist there must be as a minimum requirement of a leader and a follower, as opposed to a manager and a subordinate. The leader (for example, the CEO) must be able to engage the follower, not merely direct them on what to do. According to Rost (1993) leadership is a power and value laden relationship between leaders and followers/constituents who intend real changes that reflect their mutual purposes and goals. According to Avolio and Gardner (2005) although there may be many leadership styles the 'root construct' of all these models is authentic leadership. Authentic leadership encompasses the amalgamation of the interests of the greater good, and is not focused on exploiting the self-interest of the leaders or the followers. For the purpose of this study the
greater good would be the aggregate of the stakeholders and the shareholders of the organization. Furthermore, it is imperative that the leader forge a path of congruence of values and interests among stakeholders, while avoiding the pseudo-transformational mines of deceit, manipulation, self-aggrandizement and power abuse. This goes beyond the individual leader or follower. Avolio, Luthans and Walumbwa (2004) maintain that authentic leaders are:

*individuals who are deeply aware of how they think and behave and are perceived by others as being aware of their own and others’ values/moral perspective, knowledge, and strengths; aware of the context in which they operate; and who are confident, hopeful, optimistic, resilient, and high on moral character* (p. 4).

The theoretical basis of authentic leadership is taken from the work of humanistic psychologists Carl Rogers (1959, 1963) and Maslow (1968, 1971) as cited in Avolio & Gardner 2005 (p. 319). The CEO is the leader of the organization and is responsible to the stakeholders and shareholders of the organization. There have been many instances where the CEO has been held responsible for financial accounting decisions as previously discussed.

The leadership style of the CEO provides the means by which to communicate and display the values held by the leader. The leadership literature proposes different types of leadership theories which are summarized by Avolio and Gardner (2005) into transformational leadership, charismatic leadership, servant leadership and spiritual leadership. Working in conjunction with these theories are leadership styles. Barbuto Jr (2005) states that, “The full range leadership model describes the distribution of leadership behaviors, ranging from completely inactive (laissez-faire) to transactional behaviors to transformational behaviors” (p. 27). These three leadership styles which encompass the full range of leadership theories are still utilised today as can been seen in the work of Dajani and Mohamad (2017), Asrar-ul-Haq and Kuchinke (2016) and Tarsik, Kassim and Nasharudin (2014). These three leadership styles are adopted in the conceptual model as impacting on the financial decisions made by the CEO in an organization. These styles can be combined or used autonomously.

Burns (1978) was the first scholar to specify the distinction between transactional leaders who attempt to satisfy the current needs of followers by focusing attention on punishments and rewards and transformational leaders who attempt to raise the needs of followers and promote dramatic changes of individuals, groups and organizations. According to Trevino and Brown (2004), Burns also theorized that transformational leaders move followers to higher stages of moral development, by directing their attention to important values such as justice and equality and relied upon Kohlberg’s theory of cognitive moral development, Maslow’s (1954) theory of human needs, and Rokeach’s (1973) theory of values to explain why transformational leaders are influential. Transactional leaders focus on work standards, compliance and tasks. If an employee does not carry out a task then consequences will apply hence the term transactional. Transformational leaders, as the name suggests, focus on changing their employees by appealing to moral values and higher ideals as motivators. Bass & Steidlmeier (1999) suggested that transformational leadership contains four components: charisma, inspirational motivation, intellectual stimulation and individualized consideration. The third style of leadership is laissez-faire, with this type of leader being passive. The leader is inactive and avoids making decisions and shirks supervisory responsibilities. Bradford and Lippitt (1945) describe laissez-faire leadership as a leader’s disregard of supervisory duties and lack of guidance to subordinates. It has been mooted that the best leadership style is a combination of both transformational and transactional because “transformational leadership enhances the effectiveness of transactional leadership; it does not replace transactional leadership” (Bass & Steidlmeier 1999, p. 190). The leadership style of the CEO of a company is said to be reflective of the moral judgment that will be made by the CEO with a combination of transformational and
transactional leadership being optimum. According to Bass and Steidlmeier (1999), the pivotal issue in making moral judgments is the legitimacy of the worldview and beliefs that ground a set of moral values and criteria. A transformational leader will lead morally by identifying the core values of the company and its members. A transformational leader will allow followers to use their potential and satisfy both the company goals as well as the needs of their employees or followers. Transformational leadership will add support to transactional leadership as followers not only see that there are consequences to their actions but that they have the opportunity to use their potential and receive both rewards and inspiration from their leader. The question that needs to be evaluated is how the financial decision making of a CEO will be affected if a CEO leads with their espoused values in conjunction with a specific leadership style?

It is proposed that CEOs leading with values will have authentic leadership as the root construct of the transactional and transformational leadership styles, and incorporate features of these styles. These CEOs would be viewed as ethical or authentic leaders who are “fair and principled decision-makers who care about people and the broader society, and who behave ethically in their personal and professional life” (Brown & Trevino 2006, p. 597). Ciulla (2014) comments that “most scholars and practitioners who write about leadership genuflect at the altar of ethics and speak with hushed reverence about its importance to leadership” (p. 3).


_Alfough thousands of articles and books have been published on effective leadership, only a small portion of this work has focused on ethical leadership. Even less attention has been devoted to the definition and measurement of 'ethical leadership'._

Ethical leadership is defined by Brown et al (2005 p. 120) as:

_The demonstration of normatively appropriate conduct through personal actions and interpersonal relationships, and the promotion of such conduct to followers through two way communication, reinforcement, and decision making._

Ethics is increasingly affecting financial decisions (Nygaaard, Biong, Silkoset & Kidwell 2017) and ethical leadership can be used by top executives to reap financial benefits (Wang, Feng & Lawton 2017). Thus, the model in Figure 1 illustrates how both the values and the leadership styles of CEOs are recognized as affecting financial decision making. However, the model does not focus on values and leadership style independently, but rather on the interaction between the two. Indeed, values and leadership style need to be combined and tested with reference to financial decision making to investigate whether an optimal combination for CEO leadership exists. The extension of the leadership style literature to incorporate CEO values is justified both in terms of its contribution to theory and its practical benefit to organizations and leadership institutions.
Figure 1.
Conceptual model: interactive effect of CEO espoused values and leadership styles on financial decision making

Contribution of the model

Avolio and Gardner (2005) suggested future research is needed to assess the direct effect of the leader's positive psychological capital on followers and their mediating effects on sustained performance. In addition, Brown and Trevino (2006) acknowledge that much has been written about ethics and leadership from a normative or philosophical perspective but a more descriptive and predictive social science approach to ethics and leadership remains underdeveloped and fragmented. The model presented addresses the need for a broader view of the influence of ethical leadership (Eisenbeiss 2012; Resick, Martin, Keating, Dickson, Kwan & Peng 2011). Brown and Trevino (2006) further point out that rigorous theory-based social scientific study of ethical leadership is relatively new. Tanner et al (2010, p. 225) state that “leadership is inevitably value-laden”, and that leadership scholars (Sosik 2005; Russell 2001; Schmidt & Posner 1982) have emphasized the role of moral development and values for the emergence of ethical leadership and have called for research to examine such issues.

Meglino and Ravlin (1998) asserted that a basic reason why more progress in understanding the value processes in the workplace had not been made is that a reasonably large proportion of the research reported was not performed with the specific intent of understanding values processes, but rather with the idea that values or value congruence would explain another phenomenon of interest. Their observation that values and value congruence have been established in the literature leads to their recommendation that it would be appropriate to focus more attention on testing elements of process approaches to values, rather than focussing solely on what outcomes are affected. Meglino and Ravlin’s work has recently been extended by Groves (2016) and Oreg and Berson (2015) where the focus has shifted to the study of values processes and evaluating leadership types. In this respect it will be useful to examine individual values (CEO) for value-specific purposes (improved financial decision making). However, researchers have not explored the role that
a manager’s performance plays in moderating the relationships between the values espoused by leaders, charismatic leadership, and its motivational effects on followers (Sosik 2005).

It has been claimed that “concerns about ethics and leadership have dominated recent headlines about business and shaken public confidence in many organizations” (Brown, Trevino & Harrison 2005, p. 132). Liu (2015) refers in particular to the global financial crisis (GFC) as a recent event that lead to further scrutiny of business leadership stating that, “The emergence of the GFC in 2007 stimulated numerous accounts of the role of leadership in bringing about the crisis” (p. 426). The Australian Stock Exchange (ASX) is also concerned with ethical and responsible decision making which is evident in principle 3 of the ASX Corporate Governance Principles (2014) which is to “Act ethically and responsibly”.

The CEO is the primary administrator in charge of the management of the organization and Berson, Oreg and Dvir (2008) suggest that values act as lenses, or filters that determine the amount and type of information that leaders process and also argue that the personal values of CEOs are among the most influential leader characteristics. They emphasise that CEO values would have a substantial influence on their perceptions and behaviours, which in turn have a role in moulding the organization's characteristics and roles. Values directly affect behaviour in that they encourage individuals to act in accordance with them (Rokeach 1973, Schwartz 1992, Tetlock 1986 cited in Schwartz 2013, p. 121). Thus, this model includes how the espoused values of a CEO influence financial decision making.

As discussed earlier, there have been many high profile organization failures. According to Brown and Trevino (2014), to help mitigate such failures, organizations should consider providing leadership training in house by promoting opportunities for ethical role modelling and development. By modelling the demonstrated values of CEOs the application of these values can be subsequently investigated. Such an investigation may be used to test whether the selection, development and retention of leaders will be reflected positively in the financial decision making process. Brown & Trevino (2006) suggest that practitioners have strong incentives to select for and develop ethical leadership in their organizations. Consequently, the application of the conceptual model presented this paper may potentially change what is taught in business schools to produce future leaders who consciously choose to use their values in making financial decisions.

Conclusion

Both the values and leadership styles of CEOs affect financial decision making in an organization. Further, the values and leadership styles cannot be considered in isolation, but rather the interaction between the two must be understood in order to appropriately identify their effect on financial decision making. To this end, a theoretically derived model was presented.

Future research should use the model to empirically examine the financial decision making process of CEOs, recognising both leadership style and values in this process. It is also suggested that the model be used in future leadership studies to examine how leaders make financial decisions across varying contexts.

In addition to the theoretical contributions, this research has implications for the selection and retention of leaders in organizations, ultimately impacting the teaching of leadership in business schools.
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