

Experiential Exercise

Authority Figures

Purpose: To learn about one's experiences with and feelings about authority.

Time: Approximately 75 minutes.

Procedure

1. Your instructor will separate class members into groups based on their birth order. Groups are formed consisting of "only children," "eldest," "middle," and "youngest," according to placement in families. Larger groups will be broken into smaller ones, with four or five members, to allow for freer conversation.
2. Each group member should talk about how he or she "typically reacts to the authority of others." Focus should be on specific situations that offer general information about how individuals deal with authority figures (for example, bosses, teachers, parents, or coaches). The group has 25 minutes to develop a written list of how the group generally deals with others' authority. Be sure to separate tendencies that group members share and those they do not.
3. Repeat step 2, except this time discuss how group members "typically are as authority figures." Again make a list of shared characteristics.
4. Each group will share its general conclusions with the entire class.
5. Class discussion will focus on questions such as these:
 - a. What patterned differences have surfaced between the groups?
 - b. What may account for these differences?
 - c. What hypotheses might explain the connection between how individuals react to the authority of others and how they are as authority figures?

Source: This exercise is adapted from W. A. Kahn, "An Exercise of Authority," *Organizational Behavior Teaching Review* 14, no. 2 (1989-1990), pp. 28-42. Reprinted with permission.

Ethical Dilemma

How Much Should Directors Direct?

One critical structural element of most corporations of any size is the board of directors. And formally at least, chief executives report to the directors. Informally, however, many boards defer to the CEO and *advise* more than *direct*.

Many have placed the blame for the financial meltdown of 2008–2009 on lax boards. Business media have called boards “absolutely useless” and “a sham.” A Citibank investor argued for replacing the bank’s board of directors, saying the board “failed to protect shareholders from excessive exposure to credit, market, liquidity, and operational risk.” Securities and Exchange Commission Chairman Mary Schapiro launched an investigation into whether boards exercised sufficient control over company leaders. Alistair Darling, Britain’s Chancellor of the Exchequer, said of boards, “If there is anyone in this room, or in the industry, who thinks that they can carry on as if nothing has happened, they need to think again.”

You might think an active board is always good for an organization. However, like most structural decisions, an activist board has downsides and risks. When directors are empowered, they can become “free agents” who pursue their own agendas, including some that may conflict with the CEO’s. Conflict among board members at Hewlett-Packard almost did the company in and ended the careers of two CEOs.

In addition, dissident board members may make statements or disclose information that goes against company interests. When the AFL-CIO union secured a meeting with Home Depot director Bonnie Hill, some company executives were concerned she might disclose private information. Though that didn’t appear to happen, we can imagine some rogue board members undermining a CEO strategy they don’t like through such unauthorized communiqués. A final danger is the possibility that board members will micromanage a CEO’s strategy. When top management of one company went to the board with a proposal for executive bonuses, the board hired its own pay consultants. Such actions don’t go over well with CEOs. As one said, “You don’t need someone guiding your hand.”

Questions

1. How active do you think boards should be?
Answer: Boards should be very active in assisting the CEO in running an efficient and profitable company. In light of the Enron scandal, boards are now held more accountable too.
2. Should directors mix with employees to obtain company information from the ranks? Why or why not?
Answer: This answer may vary. The pro to mixing with the ranks is to have active dialogue with front-line employees in order to improve the environment and productivity. The motive must be pure, though, and not deceptive, like to undermine senior management or the CEO.
3. Where is the line between representing shareholders’ interests and micromanaging or second-guessing the CEO?

Answer: This line may be blurred but the board needs to remain objective and perform all duties and responsibilities in a professional, ethical and moral manner.

Sources: Based on L. Moyer, "Citi Circus?" *Forbes* (April 20, 2009), www.forbes.com; M. M. Thomas, "We The Taxpayers," *Forbes* (February 5, 2009), www.forbes.com; J. Werdigier, "British Regulator Criticizes Culture of Bank Boards," *New York Times* (June 17, 2009), www.nytimes.com; K. Whitehouse, "Move Over, CEO: Here Come the Directors," *Wall Street Journal* (October 9, 2006), pp. R1, R4.

Class Exercise

Lead a discussion on the above questions. You may want students to identify the strengths and weaknesses (or costs and benefits) of structuring an organization along the lines suggested in the case. You may also ask students what they see as the potential challenges associated with this type of structure. Finally, you may want to see whether students believe that there are size constraints in developing open structures such as this.