Lead by example, social capital will follow

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Many management scholars believe that setting a good example can foster ethical behavior in employees, increasing a firm's social capital.

As Nobel Peace Prize winner Albert Schweitzer once said, "Example is not the main thing in influencing others. It is the only thing." Well, it certainly seems to be the only thing for a raft of management gurus who have built an entire cottage industry around advising managers "how to lead by example," usually in 10 easy steps.

Few would dispute the simple truth of "leading by example." Indeed, mothers have been admonishing their young to straighten up and set a good example since time immemorial. Yet, the question arises, how specifically can managerial behavior actually shape and improve employee behavior, and ultimately boost a company's social capital?

This is the subject tackled in the article "Ethical Managerial Behavior as an Antecedent of Organizational Social Capital," written by professor David Pastoriza, Miguel A. Ariño, IESE professor of managerial decision making, and Joan E. Ricart, IESE professor of strategic management and economics and Carl Schroeder Chair of Strategic Management. Together they consider how model behavior, both from the top down and bottom up, can reap social capital for the entire organization.

OSC: Associability and shared trust

The authors define social capital as the goodwill that is engendered in the social relations of social systems, which can be mobilized to facilitate collective action. In the context of business, organizational social capital (OSC) reflects "the character of social relations within the organization, realized through members' collective goal orientation and shared trust."

Though social capital is a positive resource for many types of systems, for companies it can augment a variety of areas including cooperative behavior, solidarity benefits, higher levels of trust and diminishing the probability of opportunism. In other words, where social capital is high, efficiency, ethical behavior and loyalty are high as well.

There are two main elements to OSC: associability, which is the collective goal orientation of employees, and shared trust. Both factors are of utmost importance to businesses.

When employees embrace associability, they prioritize the organization's goals over their own personal interests. Associability increases employees' commitment to and identification with their firm - vital elements in a dedicated and effective workforce.

Shared trust, or identification-based trust, occurs when "one individual has fully internalized the other's preferences" via "a history of personal interactions with the other party." Such trust leads employees to "trust in the norms and behaviors that are generalized to all the members of the social unit as a whole."

When employees share trust and have high degrees of associability, OSC is strong, say the authors.

Encouraging transcendent motives

OSC is a valuable professional asset that increases a company's competitive advantage. But its source is often elusive. It is not something that can be bought or obtained in easily defined ways, and the question of how to harness and increase OSC is one with which organizational leaders rightly struggle.

Research has suggested that employment practices such as HR stability policies, reciprocity norms and formal procedures can strengthen OSC, but these are not enough. There is another important factor as well: managerial behavior.

For employees to commit themselves fully to collective goals, they need to identify with those goals and values - and these goals and values are embodied in managers. The manager's role must "go beyond the mere design of rational-administrative controls, to embed the organization with a work-ethic environment."

As OSC is rooted in "the internal state of individuals, it is necessary for the management to influence the attitudes, beliefs and motives of employees to create social capital."

On one level, it sounds slightly Orwellian, as if managers are disingenuously trying to manipulate employees into embracing the corporate experiment. Quite the contrary, insist the authors. Far from being phony, the essence is healthy, they say. Managers are merely nurturing their employees' natural dedication, nudging them from "self-seeking agents with little sense of obligation, to members of a community identified and committed to the common good of the firm."

It is the manager's job to help transform employees' motivations from personal to what the authors call "transcendent" ones.

Transcendent motives, they explain, are similar to intrinsic motives, which prompt individuals to act for internal, rather than external, rewards. However, where transcendent motives go further is in also seeking the well-being of others besides. Employees not only fulfill their professional potential and excel in their own work, but they also develop empathy for others. This combination achieves success for both individuals and the firm.

Tips for making it work

What can managers do to foster such motives in their employees? The authors believe that the key lies in the idea of an "exchange relationship," in which managers develop "relational closeness" between themselves and employees. As this closeness develops, so do trust and identification. And identification ultimately leads to transcendent motivations.

The authors give three tips for managers to follow when trying to introduce transcendent motives:

- Set the example of living by transcendent motives yourself.
- Instill an awareness of consequences for decision making.
- Don't stand in the way of an employee seeking to act out of transcendent motives.

And it's not all a top-down process, they say. The behavior of any individual in the organization, no matter how low on the totem pole, can ultimately enhance the entire group through the trickle-up effect as well. It starts small, with simple, daily interactions between managers and employees at all organizational levels. But everyone has influence and the ability, in a variety of ways, to make high-level change, they say.

Working for the good of others, building trust - it all sounds great on paper. In the real world, though, employees can find themselves facing "intermotivational conflict" when, for example, their transcendent motives cancel out extrinsic rewards.

When this happens, the authors recommend that employees use rationality and virtuality to determine their actions. "Rationality" involves assessing an action's convenience or inconvenience, while "virtuality" involves acting on those assessments. With some practice, these skills can become positive habits.

For managers, helping their employees learn to act for the collective good is a vital part of increasing a company's OSC. It reinforces what everyone instinctively knows: that the best way to teach is to lead by example. Transcendence will follow for all.

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