

# **An Assessment of the Effectiveness of the CEO in Banking Institutions for Enhancing Work Ethics, Innovation, and Cultural Diversity**

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*Based on data collected as part of an exploratory study from the chief financial officer and other banking administrators at a variety of levels of leadership, it appears that the assessment of the annual performance of the CEO continues to narrowly focus on the financial performance of the banking institution. In spite of a public view for organizational leaders to be innovative, culturally inclusive, and above all ethical in their conduct, the use of formal assessment criteria to determine CEO effectiveness in this regard appears to be an exception rather than integrated significantly into the process. Correspondingly, the assessment of workplace ethics, innovation and cultural diversity initiatives on the part of the CEO are not perceived by co-workers as being top priorities during the annual review of job performance .*

Keywords: banking, leadership, management, assessment practices

## **1. Introduction**

Chief Executive Officers (CEO) have received considerable notoriety recently about their ethics behind the performance, particularly in the banking industry. In this regard, CEOs at Bank of America, Citigroup and JP Morgan Chase have been identified as taking on excessive risk in the name of generating profit for their institutions (Denhardt, et.al, 2009). Such risks have been associated with the issuing of mortgages that are eventually marketed as collateralized debt obligations in the broader financial services industry. As these innovative financial products gained popularity among investors, a considerable number of leaders in USA banks cast aside traditional notions of creditworthiness in an attempt to market mortgages to consumers regardless of their ability to repay. In this regard, Arnesen, et. al., (2009) argue that restoring leadership integrity is a top priority especially for our banking institutions. Similarly, Helfman and Morrison (2009) suggest that the time may be appropriate to reexamine how our leaders are held accountable for their actions. They argue that It may now be the time to adopt a multi-level assessment process whereby leaders in organizations at all levels be actively involved in the annual assessment of their CEO.

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Therefore, the question that beckons attention is how is the performance of the CEO, particularly in the banking industry, being assessed to encourage this organizational leader to be both innovative and ethical in the future? In other words, has the criteria used to assess the annual performance of the CEO correspondingly elevated attention to workplace ethics and other aspects of the job? In addition, are co-workers perceiving their CEO as being effective in addressing such workplace practices as direct outcomes of the annual performance reviews?

## **2. Literature Review**

According to a recent 2007 National Business Ethics Survey (NBES), one of the immediate challenges for organizational leaders is to address issues relating to an increasing amount of misconduct among employees and correspondingly to their lack of success in creating a trustful working environment. In the banking industry, the position of CEO often attracts public attention especially in view of the recent notoriety attributed to risky business practices of CEOs in large financial institutions, such as Bank of America and Countrywide Financial. In this regard, the annual assessment practices of institutional boards of directors have come under particular scrutiny not only for holding their own CEO accountable but also the actions of employees throughout the institution. Also troubling is the NBES study finding that 42 percent of employees generally do not report misconduct to those in senior leadership positions. Also somewhat disconcerting is the study finding that only 9 percent of employees indicated that a strong ethical work culture existed. (National Business Ethics Survey, 2007).

While the board of directors are expected to be major player in the assessment of their CEO's performance in this regard, Burchman and Purewal (2004) suggest that other members in senior leadership positions should participate in the assessment of the CEO. This is because those in senior leadership positions, particularly the chief financial officer (CFO), are likely to have greater insight based on day-to-day exposure to the actions of the CEO than those at the board level. Correspondingly, Burchman and Purewal also argue that there is a corresponding need to develop an organizational strategy to enhance institutional competitiveness by extending the capacity of the workforce to generate innovative products that gain the public confidence. Such innovation relies upon a degree of inclusiveness in which workers from varying nationalities, cultures, and ideologies can work together for the betterment of the organization. Therefore, Burchman and Purewal conclude that a crucial role for a CEO is to develop a working environment whereby innovation and cultural diversity is not undermined by the unethical behavior of employee.

William Nelson, (Strengthening Ethical Decision-Making, 2005), suggests that the CEO is the one who sets the ethical tone for an organization. He states that the CEO is the primary player that influences how an ethics-focused culture is interwoven into everyday work practices. Denhardt, et. al, (2008) also argue that the formal assessment of the

performance of the CEO, typically conducted annually, is instrumental to enforcing an organization's code of ethics as well as for establishing an infrastructure that decision makers can turn to when there may be uncertainty as to what is ethical and what is not. However, based on the findings of a BNET survey of 1,500 business managers and executives, the CEOs are not doing nearly as good a job as they think they are (Watters, 2009). Grading their CEOs on a list of attributes that include ethics, leadership, innovation, and approachability, employees gave their CEOs an overall grade of C-. However, when CEOs graded themselves, their grade jumped to a B+. Therefore, a CEO's self-assessment appears to be generally more positive than the appraisal of those who worked for them. Another finding of particular interest is that the CEOs typically receive low grades on listening to innovative ideas from lower-level staffers. In this regard, nearly 25 percent of the rank and file in an organization perceive innovative ideas as rarely making their way up to the CEO from those in lower managerial positions. (Watters, 2009)

In *The Integrity Dividend*, Tony Simons (2008) states that a leader's personal integrity drives the profitability of an organization. Based on his research, Simons concludes that a leader's integrity impacts upon an employees capacity to innovate as well as committed to organizational goals. In a cultural diverse workforce, the CEO's integrity is associated with being perceived as a trusted partner who can be counted on to support individuals as they go about doing their tasks. (Simon, 2008) In his view, ethics should not be construed as a constraint to innovation but as the 'social conscious' of those who engage in change. Peter Drucker (2005) argues that an enhanced moral paradigm is emerging whereby new competencies of organizational leaders are being required. He suggests we are moving from an efficiency-centered transactional industrial paradigm to an Integrative post-industrial model whereby organizational leaders give increasing attention to social responsibility, morality, and environmental preservation. Therefore, the traditional assessment process of the CEO directed by an organization's board of directors (formulated in the industrial economy) may not be appropriate for evaluating the performance of a leader in the moral economy. To Drucker, assessing a leader's performance within the confines of profitability, efficiency, growth, and risk management reduces attention to important CEO job responsibilities such as promoting and enhancing innovation, appropriate ethical conduct, and moral capacity

### **3. Statement of the Problem**

As organizational boards of directors have come under pressure to address the ethical misconduct of their CEOs and others in senior leadership positions, their banks must still remain competitive by encouraging innovation and workplace inclusiveness. With bank boards of directors moving to avoid a repeat of past ethical lapses of their leaders, the question arises is how are current CEO's being perceived in promoting innovation and cultural diversity in conjunction with an ethical workplace? In other words, is the current annual assessment process of the CEO being perceived as assigning an appropriate degree of importance (or significance) for promoting the

ethical conduct, innovation, and workplace inclusiveness ? In this regard, the null hypothesis tested in this study is:

***There is no significant difference between the perceptions of an organization's CFO and those at lower levels of leadership as to the effectiveness of their CEO in promoting innovation, a culturally inclusive workplace, and an ethical environment.***

There are several unique aspects to this study for analyzing the assessment outcomes of CEOs from a multi-dimensional perspective. Whereas, a vast majority of previous research on the assessment process rely upon information gathered from either members of the Boards of Directors or a self-assessment on part of the CEO, this study specifically targets the CFO (Chief Financial Officer) and others at lower ranks of leadership (eg., vice-presidents, directors, ethics officers, etc.) as the sources for data. Since the role of the CFO has specifically been elevated in importance due to the passing of the 2002 Sarbanes-Oxley Act, the expectations are that this individual would be in frequent contact with the CEO. As a result of this legislation, whether directly or indirectly, the obligations and constraints added to the financial reporting of data to the Federal Government has elevated the role of the CFO. (Denhardt, et.al. 2008) Therefore, since the financial practices of banks and the alleged unethical conduct of some leaders have received much notoriety recently, it was decided that the CFO could provide great insight as to how CEOs are currently performing. Also, those at lower ranks were used as sources for data in that they are very likely to bear the consequences of the actions of their CEO. By comparing these two perspectives, a multi-dimensional view of the effectiveness of the CEO could be obtained.

A second unique approach to the study reflects the assumption that if some work aspect is emphasized during the annual performance review of the CEO, then that aspect will receive significant attention throughout the year. In this regard, the CEO's effectiveness in intertwining the need for innovation, workplace diversity, and work ethics is examined as a function of the yearly annual performance assessment. A third unique aspect to the study is comparing the performance of the CEO to that of competitors. While again traditional assessments of the CEO rely on internal processes, this brings an external perspective into the assessment equation.

#### **4. Research Methodology**

A written survey was utilized to gather information as to the effectiveness of the CEO associated with commercial bank in regards to promoting innovation and cultural diversity within an ethical framework. The data was gathered from those in leadership positions at varying ranks.

## **4.1 Sample for the Study**

A written survey was distributed to 452 banking administrators who work primarily in commercial banks in the United States. The banking administrators were randomly selected from a national data base of over 10,000 by *InfoUSA*. This organization is the leading compiler of 12 proprietary business and consumer databases. Those in leadership positions for the study consisted of the Chief Financial Officer (CFO) and those at lower ranks of leadership (including vice-presidents, directors, ethics officers and others). There were 51 surveys returned of which 5 were incomplete. Therefore, data from 46 survey instruments were used in this study, representing a 10 percent return. Such a small rate of return is somewhat expected due to the senior ranks of the respondents in their organizations and thus a correspondingly general difficulty in getting their responses. The small sample is a limitation to the study. *Due to this limitation, the findings are considered to provide a preliminary perspective into the assessment process-- and thus reflect an exploratory step in studying the issue.*

## **4.2 Survey Validity and Reliability**

The written survey instruments were reviewed by a panel of 3 senior executives of commercial banks in Delaware. Based upon the scrutiny of the panel of reviewers, the original survey was revised. Therefore, the survey form was considered to have content validity. In addition, a factor analysis was conducted on the 15 items in the survey. As a result of this procedure, 3 factors were extracted: *establishing organizational policies, attending to ethics, innovation, and inclusiveness, and enhancing working relationships* (See Table 1 below). Four items on the survey instrument were identified as outliers in that they did not reveal an association statistically to other items on the survey instrument.

Table 1  
 Factor Analysis of Perceptions of Effectiveness of CEO by Those in Senior Management (Component Matrix)

Factors Extracted	Extraction
<b>Measure*</b>	
<b>1. Establishing Organizational Policies --</b>	
Emphasizes Long-Term Goals	.636
Reduces Potential for Ethical Lapses	.590
Stresses Need for Continual Innovation of P/S	.767
Believes in Absolute Rules of Morality	.661
Supports Innovation With Approp. Policies	.741
<b>2. Attending to/Promoting Ethics, Innovation, and Inclusiveness –</b>	
Attends to Federal Regulatory Requirements	.605
Gives Sufficient Attention to Workplace Ethics	.739
Advances Cultural Diversity in Workplace	.587
Attends to Bal. Innovation and Ethical Resp.	.849
<b>3. Enhancing Working Relationships –</b>	
Deals Ethically With Those in Lower Mgt.	.570
Puts Effective Anti-Corruption Practices in Place	.596
Allows Lower Mgmt. to Make Impt. Decisions	.423
<b>4. Other Workplace Dynamics (Outliers)** –</b>	
Ignores views of Those in Lower Mgmt.	.331
Concerned That Innovation Gets Lost	.123
Makes Critical Decision Too Quickly	.082
Lower Mgmt Reluctant to Disagree with CEO	.020

Note: \* Extraction Method – Principal Component Analysis

\*\* Outliers groups – not particularly aligned with any other item/factor –

Survey Items included in each of the three factors derived from a factor analysis were subjected to a test of Reliability using Cronbach's procedure. (Table 2 below indicates the Cronbach's Alpha for each factor) Typically, a Cronbach score of .70 is required for acceptance of reliability. However, it is also typical that when a sample is small, as in this instance, the Cronbach's Alpha also has a tendency to be lower. The sample for this study was 46 administrators in upper management positions. Therefore, for the purpose of this study, three factors of the survey instrument was deemed as providing reliable data.

Table 2  
 Outcomes of Cronbach's Test of Reliability Test by Factor

Factor	Cronbach's Alpha
Establishing Organizational Policies	.763
Attending to/Promoting Ethics, Innovation, and Inclusiveness	.668
Working Relationships	.658

Note: Statistical Sample = 46

## 5. Study Findings

Data were collected between June 8, 2009, and June 25, 2009. Initially, 51 surveys were returned with 6 being incomplete or illegible. Therefore, data from 46 respondents were used for testing the null hypothesis of the study. Of the 46 administrators in the sample, 20 identified themselves as having the title CFO (chief financial officer) and 26 as other administrators with a variety of other job responsibilities. (See Table 3 below) For this study, the sample was divided into two subgroups; (1) Chief Financial Officers, and (2) and those at lower levels of leadership who bear the consequences of the actions of the CEO. Therefore, it was determined to compare the perceptions of members in each group since their roles are significantly different. In this study, it is reported that a very large number of those responding were male and identified themselves as Caucasian. (See Table 3 below.)

Table 3  
Demographics of Sample (n=46)

Trait	Characteristic	Statistics
Gender -	Male	40
	Female	6
Title -	Chief Financial Officer	20
	Other Banking Administrators*	26
Race -	Caucasian	38
	Black	5
	Hispanic	3

\*Note: Included in this category were business administrators in management consisting of vice presidents of operations, human resources directors, ethics officers, and others in upper management positions.

### 5.1 Perceptions of Internal Assessment Criteria.

The initial request of the respondents was to indicate the two most significant criteria they perceived as being used in the current assessment process of their CEO. The ranking of the responses by the two groups resulted in computing a Kendall Tau Coefficient of .7575 (with a p. =.009) that indicates the perceptions of the CFO were significantly similar to those of the other administrators in the banking industry. (See Table 4 below). The two most significant assessment criteria identified and used to assess the annual performance of the CEO were the financial performance (profitability) of the bank and the growth (market share) of that bank as compared to prior years. However, generating innovative and workplace inclusiveness initiatives were rarely identified as associated with the more significant criteria used in such assessments of their CEO. Also notably is the finding that the assessment of ethical conduct during the annual performance review was also not identified as one of the most frequently used criteria.

Table 4  
 Ranking of Two Most Significant Criteria Used to Assess the Annual Performance of the CEO by Perceptions of CFOs and Other Administrators

Assessment Criteria**	Frequency Identify by Position	
	CFOs	LR Admin**
Financial Performance	20	21
Growth in Market Share	7	14
Risk Management	6	10
Innovative Initiatives	4	4
Ethical Conduct	1	1
Social Responsibility	2	0
Environmental Impacts	0	0
Cultural Diversity Initiatives	0	0
Other	0	2
Total Responses	40	52

Note: \* CFO (Chief Financial Officer) = 20 (# of responses = 40 – Two Criteria Identified Per Respondent)

\*\* Lower Ranks of Administrators = 26 (# of responses = 52 – Two Criteria Identified Per Respondent)

\*\*\* Statistical Significance: Kendall Tau = .7575 P. = .009

## 5.2 Perceptions of External Assessment Criteria

In assessing the effectiveness of their own CEO in terms of that of their competitors, a comparison of perceptions of the CFOs and others at lower administrative ranks reveals that these individuals perceive that their own CEO is more effective than those in other banks for a vast majority of the areas of responsibility. Computed means for every factor but one are < 2.0 indicating that both the CFOs and other administrators generally perceive job performance similarly. (See Table 5) However, in regards to innovation, those in lower management (M=1.92) generally see their CEO as similarly effective as that of other banking CEOs whereas the CFOs (m=1.45) perceive their own CEO as being more effective. In terms of using bank assets, whereas the CFOs (M=1.95) perceive their CEO as been more effective than the competitors, those in lower management positions (M- 2.12) had a tendency to

perceive this individual being not as good as their competitors. In terms of ethical conduct of their CEO, both the CFOs and those in lower managerial ranks perceive their CEO is being better (more effective) than those of the competitors.

Table 5  
Perceptions of CFOs and Those in Lower Ranks of Leadership of the Effectiveness of CEO in Advancing a Productive Workplace as Compared to Primary Competitors (N=46)

Outcomes Mean	Better Than	Similar To	Not As Good	
<b>Innovation –</b>				
CFO	14	3	3	1.45
LR	8	12	6	1.92
<b>Social Responsibility</b>				
CFO	9	8	3	1.70
LR	16	9	1	1.42
<b>Quality of Leadership</b>				
CFO	7	10	3	1.80
LR	17	6	3	1.46
<b>Use of Assets</b>				
CFO	3	15	2	1.95
LR	3	17	6	2.12
<b>Financial Soundness</b>				
CFO	9	10	1	1.60
LR	17	9	0	1.35
<b>Quality of Products</b>				
CFO	10	7	3	1.65
LR	13	9	4	1.65
<b>Ethics Reputation</b>				
CFO	14	6	0	1.30
LR	18	6	2	1.38
<b>Energy Conservation</b>				
CFO	2	17	1	1.95
LR	6	19	1	1.81

Note: Rating Scale 1 = Better Than; 2 – Similar to; 3 – Not as Good

Note: CFOs (Chief Financial Officer) = 20; Others (Lower Ranks)= 26.

### 5.3 Overall Perceptions of Effectiveness

In analyzing the three performance areas depicted by the factor analysis, there is no significant differences in the perceptions of the banking administrators by position (or level of leadership). (See Table 6.) In terms of establishing organizational policies that promote ethics, innovation, and inclusiveness, both groups in the sample indicated their CEO as being similarly effective. The same is true for enhancing work relationships. However, on the other hand, the CEO was being perceived as being somewhat inattentive for promoting work ethics as well as innovation and workplace inclusiveness (CFO Mean = 3.56; LR Mean = 3.61).

*Table 6  
Comparative Analysis of Perceptions of CFO and Others at Lower Ranks (LR) of Effectiveness of CEO by Assessment Factor\*\* (N=46)*

<i>Factor</i>	<i>Grand</i>	<i>df</i>	<i>F</i>
<i>Signif.*</i>	<i>Mean</i>		
<i>Est. Organizational Policies-</i>			
<i>CFO</i>	2.36		
<i>LR</i>	2.61	1	1.020 .318
<i>Attentiveness to Ethics, etc.</i>			
<i>CFO</i>	3.56		
<i>LR</i>	3.61	1	.068 .795
<i>Enhancing Work Relationships</i>			
<i>CFO</i>	2.30		
<i>LR</i>	2.37	1	.103 .750

*Note: \* One-Way Analysis Statistical Measure; significant. at .05 level  
 \*\* CFO = Chief Financial Officer; LR = Lower Ranks  
 \*\*\* 1 = Strongly Agreed; 3- no opinion 5 Strongly Disagreed*



being treated equally in significance to tasks related to financial performance. It thus appears that organizations are not formally elevating these three components in their assessment criteria, thus possibly relying on other more informal methods (outside of the annual performance review) to assure acceptable standards of work ethics, innovation, and cultural inclusiveness. In terms of an external comparison of the performance of their CEO to that of their competitors, both the CFO and others at lower ranks agree that their CEO is generally performing more effectively than their counterparts. No matter if it is in the area of innovation, social responsibility, ethics, or financial soundness, both groups of banking administrators similarly perceive their own CEO is being more effective. Ironically, even though these aspects of the job of the CEO are not accentuated during the annual performance review, they still appear to be perceived as being implemented in a manner that is more favorable than their competitors.

In terms of assessing specific performance as related to establishing organizational policies, attending to ethics, innovation, and workplace inclusiveness and enhancing work relationship. both the CFO and those in lower leadership ranks both perceived their CEO similarly. In terms of establishing organizational policies, both groups generally agree that their CEO has done so effectively. This is also a similar perception in regards to enhancing work relationships. Conversely, it also appears that the CEO is not promoting workplace ethics, innovation, and inclusiveness to the degree that the leadership in the banking organization would like. This finding may reflect the assumption stated in the study that if something is not emphasized in an assessment criteria as being exceptionally important, it may not be emphasized with significant importance throughout the work year.

In this regard, the null hypothesis that there is no significant difference between the perceptions of an organization CFO and those in lower ranks as to the effectiveness of their CEO in promotion innovation, a cultural inclusive workplace, and an ethical environment is accepted. While there are a few exceptions in this regard, it seems that the criteria used in the formal annual performance assessment of the CEO targets primarily the financial aspects of banking. This continues to serve as a catalyst for action by the CEO with attention to innovation and workplace inclusiveness receiving less notoriety or significance in the actual annual performance assessment process.

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