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Normative Myopia, Executives' Personality, and Preference for Pay Dispersion

Toward Implications for Corporate Social Performance

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In this preliminary study, the authors extend Swanson's concept of normative myopia (the propensity of executives to downplay or ignore the values at stake in their decision making) by using it as a point of reference for studying executives' preference for high pay dispersion. Specifically, the authors designed a survey to examine hypothesized relationships among myopia, personality, and executives' preference for highly stratified organizational pay structures. Data from 133 executive respondents suggest that myopic executives tend to prefer top-heavy compensation systems. In addition, the findings point to an inverse relationship between the personality factor Agreeableness and normative myopia, with the former offsetting the latter. The authors reject the alternative hypothesis that gender influences both agreeableness and myopia and conclude with some implications for business and society, including Swanson's proposition that normative myopia at the top contributes to a neglectful form of corporate social performance.

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Keywords: *business and society; compensation structure; corporate social performance; executive compensation; normative myopia; personality; value neglect*

For a number of years, there has been a trend toward ever-increasing salary differentials in organizations. Whereas pay for the lowest earning workers decreased between 1960 and 1990, compensation for top managers increased greatly (Feenstra & Hanson, 1996; Juhn, Murphy, & Pierce, 1993; Mishel, Bernstein, & Schmitt, 1996). However, these pay disparities may not be warranted by companies' performance records (Colvin, Harrington, & Hjelt, 2001; Craig, 2003; Loomis, 2001; Useem & Florian, 2003). Moreover, some corporate governance structures have apparently allowed executives to receive extremely large pay packages in the form of stock options whereas investors suffered losses (Fox, 2002). This has prompted *Fortune*, a probusiness magazine, to call current executive pay practices "over-the-top CEO piggishness" (Fox, 2002, p. 70) and "outrageous," "madness," or "grossly high—astronomical" (Colvin et al., 2001, p. 64). Even Harvard agency theorist Michael Jensen, an advocate of high executive pay, has professed, "I've generally worried these guys weren't getting paid enough. . . . But now even I'm troubled" (Colvin et al., 2001, p. 64).

Despite such criticism, only a few companies have tried to rein in the income gaps between executives and nonexecutives (Morgenson, 2005), a state of affairs that seems contrary to the view that socially responsible firms should try to reward their employees—one of their most important stakeholder groups—fairly for their contributions (Waddock, 2002; see also De George, 1986; W. H. Shaw & Barry, 2004; Van Buren, 2005). Besides the issue of employee fairness, there is also a concern that large disparities in pay may contribute to a variety of internal problems, such as discouraging cooperation and trust among workers (Bloom, 1999; Bloom & Michel, 2002; Cohen & Prusak, 2001; Pfeffer, 1998) while encouraging exaggerated egoism among executives that can prompt them to be out of touch with organizational realities (Swanson, 1996). More broadly, excessive pay has been linked to top managers' failure to attend to their responsibilities to a variety of stakeholders (Nocera, 2002; Quinn, 2002; Sloan, 2003), a possibility that we will discuss in more detail in our concluding remarks.

In this preliminary study, we explore the relationship between normative myopia and executives' preference for high organizational pay dispersion and conclude with some implications for business and society, especially corporate social performance. *Normative myopia*, a relatively new concept introduced in the corporate social performance literature by Swanson (1999), refers to the

propensity of executives to ignore, suppress, or deny the role of ethical values in their decisions.¹ This definition encapsulates three closely related beliefs. The first is the assumption that normative issues (ethics and values) have no place in managerial life (cf. Jackall, 1988). The second is the fallacy that values and facts can be separated in decision making (cf. Frederick, 1994). Finally, a closely related myth is the opinion held by many practitioners that normative issues lie outside the realm of business and, therefore, should not be discussed publicly (cf. Toffler, 1986). In contrast to this type of decision making, Swanson (1999, p. 515) described normative receptivity as the belief that values and facts are inseparable in executive policy formulation. Although normative myopia is consistent with the definition of amoral management as a failure to consider ethics in business (Carroll, 1987, 2001), its psychological aspects remain undeveloped. There is no empirical evidence—and little theorizing, we might add—on personality-based predictors of normative myopia.

This article represents a first step in addressing this gap. In developing our hypotheses, executive normative myopia assumes a key role as the mediating variable between the personality trait Agreeableness (defined later) and preference for pay dispersion. By using this approach, we hope to shed more light on the question of how business executives countenance the income inequalities that exist in today's corporations. Along these lines we ask whether a lack of agreeableness might explain the propensity of top managers to downplay or ignore ethical values and, if so, whether this disposition helps predict their preference for greater pay dispersion in organizations. Specifically, our survey is designed to examine some hypothesized relationships among executive normative myopia, agreeableness, and preference for highly stratified organizational pay. To preview, our data suggest that myopic executives tend to prefer top-heavy compensation systems. In addition, our findings point to an inverse relationship between agreeableness and normative myopia, with the former offsetting the latter. We compare this result to an alternative hypothesis that gender influences myopia and conclude with some implications for business and society, including Swanson's (1999) proposition that normative myopia at the top of organizations contributes to a neglectful form of corporate social performance.

Hypothesis Development

Consequences and Predictors of Normative Myopia

Generally speaking, organizations have great discretion in designing their compensation systems (Rynes & Milkovich, 1986). Top executives

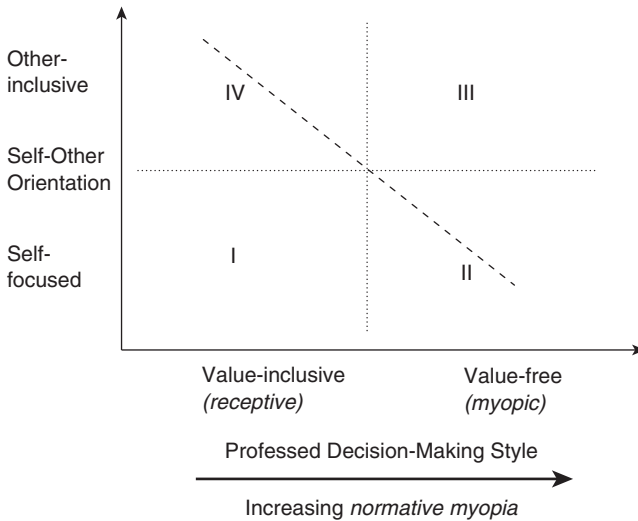
can play a direct role in this policy formulation when they serve on boards of directors and sit on compensation committees. Their influence can be indirect as well because they often select the consultants and board members who help craft organizational pay structures (Crystal, 1991). This state of affairs suggests a need to understand executives' attitudes toward corporate salary distributions and the implications these preferences have for corporate social performance. In this section, we focus on the former by exploring a role for normative myopia. Specifically, we propose that executives' preference for highly unequal pay structures may be a consequence of normative myopia or the propensity to downplay or ignore the ethical values at stake in their decisions. Our reasoning is straightforward. Pay equity involves normative considerations of fairness and distributive justice for all employees (cf. Blockson, 1998; May & Pauli, 2002; Van Buren, 2005). Executives who score high on normative myopia are unlikely to factor these concerns into their preferences for organizational pay systems because myopic decision makers are, by definition, insensitive to the value interests of others and, therefore, inclined to prefer top-heavy compensation systems that benefit their own vested interests.

Hypothesis 1: Normative myopia is positively related to executives' preference for high pay dispersion in organizations.

Exploring whether executives' preference for high pay dispersion might be consequential to normative myopia is only part of our research agenda. We are also interested in what drives or helps predict normative myopia, especially because Swanson (1999) did not broach this subject in her conceptualization of the term. Personality is a likely candidate because it generally accounts for a lot of variance in individuals' values, perceptions, motivations, and behaviors (Barrick & Mount, 1991; Buss, 1989; Kreitler & Kreitler, 1990). With this in mind, we selected agreeableness—which denotes an individual's inclination to be cooperative, friendly, altruistic, tender minded, and trusting—from the widely respected five-factor model of personality as a possible influence on normative myopia.² Although we do not expect any relationships between myopia and other personality factors, we propose that executives who are more agreeable are less likely to profess normative myopia.

This proposition requires further discussion because Swanson (1999) did not explore the distinctions between self- and other-orientations in terms of value-free (myopic) and value-inclusive (receptive) decision making. With the addition of a personality factor, however, we can postulate an affinity between narrowly focused self-interest and normative myopia on one hand

Figure 1
Values-Oriented Management



and agreeableness as an indicator of normative receptivity or the propensity to include the interests of others on the other. As depicted in Figure 1, these relationships can be arrayed according to decision-making orientations in a two-by-two matrix that depicts our expectation of a negative relationship between agreeableness and normative myopia.

Specifically, Quadrant II indicates a correspondence between decision making professed to be value free and a narrow focus on self. (We use the term *professed* because our survey of executives, described later, is designed to tap executives' self-reported attitudes toward values in their decision making.) Conversely, Quadrant IV shows that attention to values goes hand in hand with a willingness to include others in decision making (Etzioni, 1988; cf. psychological research on adolescents reported in Nelson & Buchholz, 2004). That other- and value-inclusive dimensions converge in Quadrant IV is consistent with the discernment that individuals classified as agreeable demonstrate a greater sensitivity to the needs and expectations of others and are more other-regarding and caring (Digman, 1990; Peabody

& Goldberg, 1989). They are also more likely to conform to social norms (Fiske, 1949) and more sensitive to maintaining a positive social identity than are disagreeable individuals (cf. Greening & Turban, 2000, on social identity in related business and society literature; cf. Tajfel & Turner, 1985, more generally). Because such sensitivity implies the ability to recognize beliefs held by others, it is logically problematic to talk of other-inclusive decision making that is value free (Benhabib, 1987), which is what Quadrant III represents.

Our expectation of a negative relationship between agreeableness and normative myopia is denoted by the dashed line sloping downward from Quadrant IV to Quadrant II. It is important to point out that this line represents a continuum between the extreme poles of self-focused (myopic) and other-inclusive (receptive) decision making, based on the understanding that individuals differ in the degrees to which they balance self-interest with value commitments to others (Etzioni, 1988). Given what has been said so far, we expect that most of our observations will fall in Quadrants IV and II because Quadrants I and III are logically problematic in combining value-inclusive, self-focused and value-free, other-inclusive dimensions, respectively. In other words, Quadrants I and III appear to involve more complex psychological dynamics in need of further explanation.³

Besides the arguments presented so far, the proposed inverse relationship between agreeableness and normative myopia depicted in Figure 1 is consistent with two ethics perspectives. One, because agreeableness is a personality trait that captures sensitivity to the needs of others, it harkens to the ethics-of-care moral reasoning that emphasizes the values that support relationship building (Gilligan, 1982; Noddings, 1984). Two, the hypothesized relationship between agreeableness and normative myopia recalls Kohlberg's (1981) third and fourth stages of cognitive moral development, which encapsulate an ability to refer to interpersonal and social relations as norms for moral reasoning instead of the focus on self that marks lower stages (e.g., J. Weber & Wasieleski, 2001).

Hypothesis 2: Agreeableness is inversely related to normative myopia.

To correctly specify the relationships proposed so far, it is important to control for gender, which could provide an alternative explanation for Hypothesis 2. That is, gender might be the real cause of the inverse relationship between agreeableness and normative myopia if female gender predicts both agreeableness and myopia. This possibility is worth considering because some studies suggest that women generally (a) exhibit more

ethical attitudes and behaviors than men (Borkowski & Ugras, 1998; Jones & Gautschi, 1988; Ruegger & King, 1992), (b) demonstrate greater concern for ethical issues (Beltramini, Peterson, & Kozmetsky, 1984), (c) are more caring (Beutel & Marini, 1995), and (d) reach higher stages of moral reasoning (Eynon, Hill, & Stevens, 1997). Two meta-analyses have substantiated these findings, one by providing evidence that women have higher ethical standards (Franke, Crown, & Spake, 1997) and the other by revealing their greater care orientation (Jaffee & Hyde, 2000).⁴ Given these findings, gender could conceivably be the real cause of high scores in agreeableness and low scores in myopia and thus be a confounding variable. If so, the relationships found in support of Hypothesis 2 may be spurious. To examine this possibility, we will statistically control for gender effects in our study.

Agreeableness and Executives' Preference for Pay Dispersion

Research indicates that individuals who are more agreeable tend to prefer team-oriented, collectivist cultures in which trust, support, and cooperation are valued more than individualism (Bretz & Judge, 1994; Cable & Judge, 1994; Judge & Cable, 1997; O'Reilly, Chatman, & Caldwell, 1991). We expect agreeable executives to exhibit this same tendency. In their case, however, it might be based on other considerations as well. That is, given their span of authority, agreeable executives may take into account the turnover among managers, decreased teamwork, and lower organizational performance associated with high pay dispersion (Bloom, 1999; Bloom & Michel, 2002; Judge & Cable, 1997; Leana & Van Buren, 1999; J. D. Shaw, Gupta, & Delery, 2002). At any rate, because greater levels of agreeableness suggest more concern for the needs and interests of others, we propose that executives who score high in agreeableness will favor more egalitarian pay systems. This expectation is buttressed by evidence that narcissism and greed are indicators of extremely low agreeableness (Costa & McCrae, 1992; Goldberg, 1992), which simply reinforces the possibility of a positive correlation between agreeableness and a regard for others' interests, including their stakes in fair pay distributions. Or, as Hypothesis 3 conveys, agreeable executives are less likely to prefer highly stratified systems of organizational pay.

Hypothesis 3: Agreeableness is inversely related to an executive's preference for high pay dispersion in organizations.

Normative Myopia as a Mediator of Agreeableness-Pay Dispersion Preference

Putting our theoretical model together, we have proposed in Hypotheses 1 through 3 that normative myopia mediates the aforementioned relationship between agreeableness and executives' preference for highly stratified pay structures. Our last hypothesis combines the previous ones by depicting the three variables as antecedent, mediator, and consequence. That is, we expect agreeableness (antecedent) to be inversely related to normative myopia (mediator), which, in turn, positively predicts an executive's preference for high organizational pay dispersion (consequence). Hypothesis 4 summarizes these proposed relationships.

Hypothesis 4: The relationship between executives' agreeableness and preference for high organizational pay dispersion is mediated by normative myopia.

Method

Sample

To test our hypotheses, we sampled 195 executives enrolled in the Executive MBA (EMBA) program of an Australian business school in a metropolitan city.⁵ Of the surveys distributed in an organization structure class, 133 were returned, for a response rate of 68%. All respondents were full-time employed managers or executives and part-time graduate students in their final year of the EMBA program. Respondents' age ranged from 26 to 52 years, with an average age of 36 years (*Mdn* = 35 years). Of the respondents, 71% were male. On average, respondents had 11 years of industry experience and had been working for their organization for 6 years. The average respondent had taken three economics, four finance, and two corporate strategy courses at the university level. Most executives surveyed worked in financial services and banking (24%), manufacturing (16%), and information technology (10%). Of the respondents, 5% were employed in public service, government, or nonprofit organizations.

Procedure

Surveys were distributed to the EMBA students before the final-year module on organizational design. The survey stated that the present study was about managerial beliefs, decision-making styles, and human resource

practices. Students were assured that their responses would be confidential and anonymous. To deliver on this promise, we numbered the questionnaires so that they could be matched with anonymity in a lagged collection of independent and dependent variables. Opportunities for demand characteristics or individual biases were minimized because all respondents had completed similar EMBA coursework, which did not include business ethics. After analyzing the results, we sent an executive summary to those respondents who had requested an overview of our findings.

Measures

To measure agreeableness we relied on an existing measure from Goldberg's (2001) inventory of 50 Likert-type scale items, which captures the five factors of personality. In our analyses, the coefficient alpha reliability for the 10 items of Agreeableness was .82. The four remaining personality measures of Extraversion, Emotional Stability, Conscientiousness, and Openness to Experience had coefficient alpha reliabilities of .89, .84, .77, and .75, respectively. Goldberg's (2001) Web site (http://ipip.ori.org/new_home.htm) presents further evidence of the reliability and construct validity of these personality factors.

We devised 19 Likert-type scale items to measure normative myopia in terms of three dimensions, presented earlier as the beliefs that (a) ethical values have no place in managerial life, (b) values and facts can be separated, and (c) normative issues fall outside the realm of business. For the purpose of construct validation, we followed Nunnally and Bernstein's (1994, pp. 101-104) suggestion to pretest items. We did so with a sample of MBA students, doctoral students, and the first author's academic colleagues, who recommended a number of revisions and clarifications. As part of the construct validation in the pilot study sample of MBA students, the scree plot of the exploratory factor analysis suggested three principal components. In the final EMBA sample, we eliminated seven items with relatively small or ambiguous factor loadings after varimax rotation. Illustrated in Table 1, the first and second dimensions are captured by two items each and the third dimension by eight. In the final EMBA sample, the 12 remaining items that constituted our exploratory measure of normative myopia had a coefficient alpha reliability of .73. Moreover, the construct validity of the scale was tested with the final EMBA sample as part of the confirmatory factor analysis implied by Figure 2 and discussed later in the Results section.

Because normative myopia is an aggregate multidimensional construct (as is job satisfaction, for example), the dimensions can be algebraically

Table 1
Rotated Factor Matrix of Final 12 Items
Measuring Normative Myopia

Items	Factor 1	Factor 2	Factor 3
To be effective, managers must separate their personal lives from their professional responsibilities.	.55		
Good managers are able to apply their personal values in corporate life. (reverse coded)	.53		
Facts are usually more important than values in any decision I make in my company.		.58	
The main difference between facts and values is that facts can be analyzed objectively whereas values cannot.		.58	
If managers factored values into their decisions, chaos would result.			.67
Social values have a place in corporate life. (reverse coded)			.61
Business ethics is irrelevant to good decisions.			.60
Ethics officers provide helpful information for management decisions. (reverse coded)			.60
I factor values into my decisions. (reverse coded)			.57
Corporations should foster a climate where individual values are discussed freely. (reverse coded)			.56
Business ethics is a contradiction in terms.			.54
Ethical training programs are a waste of time.			.53

combined to form an overall representation of the construct (Law, Wong, & Mobley, 1998). That is, our conceptualization of normative myopia is not as a latent construct that exists at a higher, more abstract level than its dimensions. These dimensions do not represent different manifestations of the construct, nor does the construct lead to these dimensions. Instead, normative myopia is formed from them (cf. Law et al., 1998). Because of these construct characteristics, it is proper to aggregate the item scores and, for reasons of comparability, divide this aggregate by the number of items to calculate a normative myopia score for each respondent.

Preference for pay dispersion was measured in three ways. First, we aggregated and averaged the responses to three Likert-type scale items (PD1) about executives' preferences for relatively equal or unequal pay systems. Second, the respondents indicated in a dichotomous item whether they preferred a "more egalitarian" compensation system or a compensation system that "has greater pay differentiation" (PD2). Third, after being provided with current highest-to-lowest pay ratios, the respondents were asked for

their own preferred highest-to-lowest pay ratios in their organizations. As is evident from Table 2, the three Likert-type scale items (PD1) had a coefficient alpha of .79. In addition, Table 2 shows that the three different measures of pay structure preference were highly correlated. The third measure was used only to validate the other two measures of preference for compensation distributions and, thus, was discarded from further inferential statistical analyses. We were reluctant to use the third measure because, although the means were significantly different (at $p < .05$) between those respondents with egalitarian preferences (average highest-to-lowest pay ratio of 42:1) and those respondents with preferences for pay dispersion (73:1), the difference was relatively small.

Control Variables

Several demographic measures, such as respondent gender, age, organizational tenure (in years), industry experience (in years), and amount of business education (operationalized as the aggregate of three Likert-type scale items measuring the amount of semester-long courses in economics, finance, and corporate strategy) were added as controls. It was important to include the latter control variable given assertions that economics and similar coursework can negatively affect individuals' ability to consider ethics, values, and concerns of organizational stakeholders (Ferraro, Pfeffer, & Sutton, 2005; Frank, Gilovich, & Regan, 1993; Ghoshal, 2005). If we omitted this control, our observations might be suspected to be spurious in that we failed to account for the effects of a potentially confounding variable.

Data Analysis

To test Hypotheses 1 through 3, we performed ordinary least squares and logistic regression analyses. For the test of mediation (Hypothesis 4), we applied two different data analysis techniques: (a) structural equation modeling and (b) R. Baron and Kenny's (1986) regression tests of mediation. Summarized briefly, structural equation modeling simultaneously and parsimoniously tests all variables included in the theoretical specification of a model by using statistical assumptions more stringent than those required for the Baron and Kenny technique, which relies on straightforward correlation and regression analysis (Byrne, 2001; Sharma, 1996). Because both methods are subject to their own strengths and weaknesses, we conservatively tested Hypothesis 4 by considering whether their results point in the same direction. We can have greater confidence in the results if they do. In the

Table 2
Descriptive Statistics: Means, Standard Deviations, and Correlations

Variable	<i>M</i>	<i>SD</i>	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1. Amount of business education	6.54	2.83	(.74)													
2. Gender ^a	0.29	0.45	-.03													
3. Age	35.56	5.35	-.01	-.13												
4. Industry experience	10.51	6.89	-.07	-.02	.61											
5. Organizational tenure	5.64	5.51	-.09	-.11	.35	.52										
6. Preference for pay dispersion	2.75	0.78	.24	-.10	.02	.00	-.01	(.79)								
7. Preferred pay ratio	56.57	74.00	.23	.00	-.12	-.07	.00	.29								
8. Preferred pay system ^b	0.50	0.50	.21	-.15	-.06	-.14	-.05	.51	.21							
9. Extraversion	3.39	0.72	.09	-.02	-.22	-.06	-.16	.15	-.01	.09	(.89)					
10. Agreeableness	3.68	0.40	-.09	.19	.00	.14	-.07	-.28	-.15	-.25	.21	(.82)				
11. Conscientiousness	3.60	0.55	.12	-.02	.07	.01	.06	.05	.00	.13	-.09	-.01	(.77)			
12. Emotional Stability	3.57	0.64	.14	-.26	.17	.17	.13	.10	-.01	.08	.20	.13	.05	(.84)		
13. Openness to Experience	3.86	0.44	-.12	.21	.03	.14	-.05	.00	.08	.00	.16	.17	-.18	.09	(.75)	
14. Normative myopia	2.22	0.38	.06	.01	-.17	-.13	-.01	.23	.13	.22	-.03	-.25	-.02	-.08	-.13	(.73)

Note: *N* = 133. Figures in parentheses on diagonal represent alpha reliability coefficients.

a. 1 = female, 0 = male.

b. 0 = egalitarian, 1 = large pay differentials.

measurement model of the structural analysis, we included the conventional correction for measurement error ($1 - r_{ii}$). Across items measuring the same latent construct, r_{ii} may, for example, be defined as Cronbach's coefficient alpha, an estimate of the reliability (Byrne, 2001; Nunnally & Bernstein, 1994).

Results

Descriptive Statistics

Table 2 shows descriptive statistics (means, standard deviations, and correlations) of all measures included in the analyses. Our findings are consistent with most previous empirical evidence that women generally receive higher scores on agreeableness (Costa, Terracciano, & McCrae, 2001; Du, Bakish, & Hrdina, 2000; Feingold, 1994), lower scores on emotional stability, and higher scores on intellectual openness to experience than do men (Feingold, 1994).⁶ These gender-specific tendencies are evident from the positive correlations between gender and agreeableness and openness to experience, respectively, and the negative correlation between gender and emotional stability in Table 2. These correlations can also be regarded as evidence of construct validity in that they confirm the operationalization of Big Five personality traits proposed by Goldberg (2001). Interestingly, amount of business education in strategy, economics, and finance was positively related to preference for pay dispersion in the bivariate correlation matrix (the average r was .23 across the three different operationalizations of preferred pay dispersion) and the baseline model (column a) in Table 3 ($\beta = .25, p < .01$). Tables 3 and 4 provide regression analysis results related to Hypotheses 1 through 3.

Hypothesis 1: Normative Myopia and Preference for High Pay Dispersion

Hypothesis 1 predicted a positive relationship between normative myopia and preference for more unequal pay structures. According to Table 3, the data support Hypothesis 1 in that normative myopia is shown to be positively related to executives' preferences for relatively high pay dispersion ($\beta = .23, p < .05$; column b of Table 3). This relationship remained significant ($\beta = .17, p < .05$, one-tailed) even when agreeableness was added (cf. column c of Table 3). Patterns similar to the results depicted in Table 3 were found in a set of logistic regressions with the dichotomous measure of preferred compensation system (PD2) used as the dependent variable.⁷

Table 3
Predictors of Preference for Compensation Systems
With Relatively High Levels of Pay Differentiation

Independent Variables	Standardized Regression Coefficients (β)				
	a	b	c	d	e
Controls					
Gender	-.11	-.09	-.06	-.06	-.06
Respondent age	.00	.04	.00	-.02	.01
Industry experience	-.01	.03	.09	.06	.09
Organizational tenure	.05	-.03	-.06	.00	-.06
Amount of business education	.25**	.22*	.20*	.22*	.20*
Theoretical predictors					
Normative myopia		.23*	.17 [†]		.17 [†]
Agreeableness			-.22*	-.27**	-.22*
Multiple <i>R</i>	.27	.34	.39	.38	.39
<i>R</i> ²	.08	.11	.15	.14	.15
Adjusted <i>R</i> ²	.04	.07	.10	.10	.10
<i>F</i> associated with change in <i>R</i> ²	7.38**	6.59**	5.44*	8.71**	3.57 [†]
		(b vs. a)	(c vs. b)	(d vs. a)	(e vs. d)

[†] $p < .10$, two-tailed. * $p < .05$, two-tailed. ** $p < .01$, two-tailed.

Hypothesis 2: Agreeableness and Normative Myopia

Table 4 gives the results of our regression analysis of the relationships expressed in Hypothesis 2 (that agreeableness is inversely related to normative myopia). In support of this hypothesis, Table 4 shows that agreeableness is negatively related to our measure of normative myopia ($\beta = -.27$, $p = .007$), suggesting that more agreeable executives may be less myopic and, thus, more likely to include the value interests of others in their decision making. Based on the unstandardized measures of association (regression weight *B* of $-.35$, $SE = .13$), we would expect an average 1-point increase in agreeableness (equivalent to 2.5 standard deviations) to correspond to an average 0.35-point decrease in normative myopia, when other personality factors are held constant. In addition, Table 4 also indicates that the addition of the other four personality factors (Extraversion, Conscientiousness, Emotional Stability, and Openness to Experience) did not contribute to a better explanation of normative myopia. When the other four personality traits were excluded from the multiple regression equation,

Table 4
Agreeableness as a Predictor of Normative Myopia

Independent Variables	Standardized Regression Coefficients (β)		
	a	b	c
Controls			
Gender	.00	.01	.05
Respondent age	-.16	-.17	-.19
Industry experience	-.07	.03	.02
Organizational tenure	.09	.07	.03
Amount of business education	.06	.06	.03
Personality variables			
Extraversion		-.05	-.01
Conscientiousness		.00	.01
Emotional Stability		-.04	-.01
Openness to Experience		-.10	-.09
Agreeableness			-.27**
Multiple R	.20	.23	.37
R^2	.04	.06	.14
Adjusted R^2	.00	.00	.06
F associated with change in R^2	0.93	0.46	7.06**

* $p < .05$, two-tailed. ** $p < .01$, two-tailed.

agreeableness remained highly negatively correlated with normative myopia ($\beta = -.29$, $p = .003$). In short, agreeableness was found to be a statistically significant predictor of normative myopia.

In sum, these findings confirm our expectation of a negative relationship between agreeableness and normative myopia, conveyed in Figure 1 by the dashed line sloping downward from Quadrant IV to Quadrant II. A cross-tabulation of data further supports this expectation. Specifically, we observed the largest number of cases in Quadrant IV (34.6%), followed by the second-largest number in Quadrant II (26.2%). (Also, 20.0% of observations fell in Quadrant I and 19.2% in Quadrant III.) The overall chi-square test was statistically significant ($\chi^2 = 5.72$, $p = .017$), with an eta of .21, indicating that the two dimensions in Figure 1 (self- or other-orientation and professed style of decision making) are not independent, providing further support for the reasoning used to derive Hypothesis 2. In fact, a scatter plot of the continuous observations arrayed as Figure 1 was consistent with the logic presented to introduce Hypothesis 2.

Rejecting Gender as an Alternative Explanation for Hypothesis 2

As previously discussed, it is necessary to rule out gender as an alternative to explanations that support Hypothesis 2. As such, we reexamined our data with the alternative explanation of gender in mind. Specifically, the women in our sample ($n = 38$) did score higher on agreeableness than did the men ($n = 95$). The respective average scores were 3.80 and 3.63, with the difference being statistically significant at $p = .03$. Eta, a bivariate measure of association, was .19 (cf. correlation reported in Table 2). Thus, sex did make a difference with respect to agreeableness. However, the sexes scored similarly on normative myopia. (Indeed, the female executives who were surveyed received slightly higher scores on normative myopia—2.25 for women and 2.20 for men. But the difference was statistically nonsignificant.) This finding runs contrary to the alternative explanation of gender. A further test of the effect of gender on the association between agreeableness and normative myopia is provided by the partial correlation coefficient between those two variables, controlling for gender. This partial correlation was $-.27$ ($p = .002$) and, thus, actually slightly larger in magnitude than the zero-order correlation between agreeableness and normative myopia shown in Table 2 ($r = -.25$). Given this evidence, we concluded that in our sample, the within-gender variance of agreeableness explained differences in normative myopia better than did gender. (Also note that gender was included as a control variable in Tables 3 and 4.)

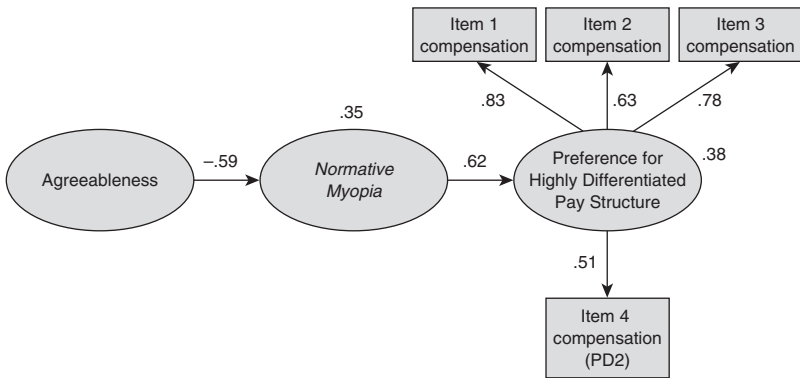
Hypothesis 3: Agreeableness and Preference for Pay Dispersion

Consistent with Hypothesis 3, more agreeable executives tended to prefer more egalitarian compensation systems (see column d of Table 3). More specifically, the beta regression weight of agreeableness predicting preference for pay dispersion was $-.27$ ($p < .01$) without normative myopia in the model and $-.22$ ($p < .05$) with normative myopia included (column e in Table 3). These results suggest, in support of Hypothesis 3, that agreeableness is negatively related to preference for high pay dispersion.

Hypothesis 4: Mediation Effects

Finally, we tested for mediation effects. According to Hypothesis 4, these effects are that agreeableness is inversely related to normative myopia, which, in turn, positively predicts a preference for high pay dispersion.

Figure 2
The Fully Mediated Path Model (Empirical Results)



Note: Ovals show latent variables and boxes indicators. Numbers next to paths are maximum-likelihood standardized regression weights. Numbers next to ovals are squared multiple correlations. Fit indices of mediated model (Figure 1): Tucker Lewis Index = .982; chi-square (discrepancy)/ df = 1.59; root mean square error of approximation (RMSEA) = .066; goodness-of-fit index (GFI) = .973; adjusted GFI = .934; comparative fit index (CFI) = .776. For comparison, fit indices for unmediated model (A \rightarrow preference for highly differentiated compensation system): Tucker Lewis Index = .778; chi-square (discrepancy)/ df = 1.585; RMSEA = .067; GFI = .855; Adjusted GFI = .851; CFI = .747.

Hypothesis 4 implies the path model shown in Figure 2, which can be tested in structural equation analyses. To compare Figure 2 (fully mediated path model) to a simple unmediated model (i.e., agreeableness directly influences pay structure preference), we used the chi-square (χ^2) statistic to test the difference between these two nested path models. According to this comparison ($\chi^2 = 42.94$, $p < .05$), the fit of the mediated model was better. The various fit statistics (e.g., the comparative fit index or the Tucker-Lewis Index) reported at the bottom of Figure 2 generally suggest the same conclusion. Also, the fit indices of other mediation models (i.e., other causal orders) were inferior to those of the hypothesized model shown in Figure 2. That is, our empirical analyses portend that agreeableness affects normative myopia, which in turn influences preference for organizational pay structures. Furthermore, the test statistics at the bottom of Figure 2 indicate a good fit of the measurement model underpinning Figure 2 as well.

As pointed out above, structural equation modeling often requires fairly stringent assumptions. One is the requirement of relatively large sample sizes.

Therefore, to be more confident in our results, we performed Baron and Kenny's (1986) test for mediation. According to this test, three inferential conditions must be met. First, agreeableness must be negatively correlated with preference for high pay differentiation. Second, normative myopia must be positively related to preference for high pay differentiation. Third, the regression coefficient between agreeableness and preference for pay differentiation must decrease to statistical nonsignificance after normative myopia is added to the regression equation. The bivariate results in Table 2, previously mentioned, indicate that the first two conditions are satisfied. After comparing columns d and e in Table 3 (and the results in the table of logistic regressions, not shown in this article), we concluded that although the regression weight of agreeableness becomes smaller with the addition of normative myopia, it retains some statistical significance. That is, even when the model includes normative myopia, agreeableness still exerts a significant, direct influence on pay structure preference. This suggests partial rather than full mediation.

In other words, our statistical analyses do not fully support Hypothesis 4 that agreeableness is inversely related to normative myopia, which, in turn, positively predicts a preference for high pay dispersion. Instead, we found that normative myopia only partially mediates the negative relationship between agreeableness and preference for highly differentiated pay systems. It may be one of the causal mechanisms through which agreeableness affects preference for pay dispersion, but it is not the only one.

Discussion

To recap, we found evidence to support our expectation that agreeable executives are less likely to exhibit normative myopia and preference for highly stratified organizational pay. Moreover, our data suggest that agreeableness partially mediates this relationship and that gender does not seem to be causal to it.

Implications for Business and Society Research and Education

We will confine our concluding remarks mostly to implications for corporate social performance models. Taken as a whole, these models encompass corporate responsibilities to society, ways by which corporations respond to their environments (corporate social responsiveness), and resulting social impacts (Wood, 1991; see also Carroll, 1979, 2000; Epstein, 1987; Frederick, 1987; Jones, 1983; Sethi, 1979; Swanson, 1995; Wartick & Cochran, 1985; Wood, 2000). Although these models have advanced research by classifying

linkages among many business and society topics, normative issues—including the role of executive decision making and value preferences—have not been adequately included (Frederick, 1998; Swanson, 1995; Van Buren, 2005). Swanson (1999) addressed this state of affairs by proposing that if executive managers exhibit normative myopia and encourage this type of decision making as the standard for other employees, then whole organizations can eventually lose touch with stakeholder expectations of responsibility. The resulting tendency is a neglectful or sluggish form of corporate social responsiveness, which she refers to as “value neglect.” In contrast, Swanson proffers normative receptivity as representational of executive decision making that consciously strives to incorporate the value-based expectations of stakeholders while encouraging other employees to do the same. In other words, normative receptivity at the top can be thought of as necessary (but not sufficient) to a firm’s ability to respond constructively to the social environment, which Swanson dubs the possibility of “value attunement.”⁸ According to Swanson, a fuller understanding of value attunement awaits a specification of the values that contribute to corporate social responsibility and a better understanding of what responsibility entails. In this way, attunement theorizing is more tentative than is value neglect.

Although Swanson (1999) proposes that normative myopia at the top can contribute to an organization’s neglectful posture toward society, she did not speculate on the role of executive personality. Nor did she consider executives’ preference for compensation structures. These may be important concepts to consider because if myopia mediates the relationship between agreeableness and preference for highly differentiated pay systems, then these types of pay structures may in and of themselves be symptomatic of some level of value neglect or organizational tendency to ignore or downplay stakeholder expectations of responsibility (cf. Nocera, 2002; Quinn, 2002; Sloan, 2003). In contrast, if executive normative receptivity and sensitivity to a fair distribution of organizational pay go hand in hand, then this correspondence may signify some capacity for attunement, especially because highly competitive compensation systems can undermine the cooperation, trust, and social capital among employees needed for constructive responses to external constituents and interactive and dialogue-based relationships with them (cf. J. N. Baron & Kreps, 1999; Cohen & Prusak, 2001; Donaldson & Preston, 1995; Leana & Van Buren, 1999; Schein, 1992; Szwajkowski, 2000; Waddock & Graves, 1997). In other words, large pay disparities may be counterproductive to value-attuned corporate social performance. If so, it is important to understand the role executives play.

Future research aimed at understanding this role should clarify the relationships among executive agreeableness, normative myopia, and preference

for pay structures. Recall that the former may exert either a direct influence on pay structure preference or an indirect influence through a mediator other than normative myopia. This suggests the need for other studies designed to examine associations between preference for pay dispersion and other variables that could be implicated in these dynamics. One candidate for exploration is the role of organizational structure (cf. Gerde, 2001) because large bureaucratic organizations with tall chain-of-command structures tend to produce hierarchical decision making that is slow to react to novel information (Frederick, 1995; Jackall, 1988; Perrow, 1986; Schein, 1992). The corollary is that responsiveness to stakeholders would be more likely in organizations with flatter structures (Swanson, 1999). By extension, we would expect greater responsiveness if flatter structures covary with lower executive-worker pay ratios because such covariance suggests less myopia in executive decision making. That said, we do not claim that organizational pay scales exhibiting large differentials between the top and bottom strata signify a lack of social responsibility per se. Surely there are many contingencies to consider, such as firm size, type of industry, and scarcity of executive expertise. In general, though, our study implies that organizational pay distributions deserve further scrutiny in terms of corporate social performance, especially because highly stratified compensation systems may have the aforementioned counterproductive effects on organizational behavior.

The role of business education is another area ripe for inquiry. Although not hypothesized, our findings indicate that executives with more business education tended to prefer organizational compensation systems with relatively greater pay inequalities ($r = .24$ and $.21$, respectively) and larger highest-to-lowest pay ratios ($r = .23$). Respondents' qualitative comments suggest that this preference might be because of a self-interested expectation that their business education will pay off. A complementary explanation is that business education itself may encourage an exaggerated self-interest that ignores or downplays the needs of others (Ferraro et al., 2005; Ghoshal, 2005; Swanson & Frederick, 2005; Swanson & Orlitzky, in press; Waddock, 2003). Investigating this possibility would require sampling a larger population of business students from different countries with more diverse educational backgrounds. It would be particularly interesting to know whether the response patterns of students who have business backgrounds differ from those who do not.

Study Limitations

Like any preliminary study, ours has weaknesses that could be addressed in future research. One major weakness is that associational measures

based on self-reports of several variables can overstate the real relationships. Yet this methodological problem of common method bias might not be grave.⁹ For one thing, we can safely assume that most respondents know their decision-making preferences better than any observer. At any rate, self-reports are difficult to avoid in many studies. Even so, future researchers could try to come up with valid measures collected from different sources over time. Such observational, longitudinal data could circumvent this potential threat to internal validity and help clarify the implications of normative myopia for organizations. Future studies that examine actual organizational consequences of normative myopia (e.g., actual organizational pay structures, human resource and compensation systems) in a longitudinal design might provide further confirmation of our results.

Potential response distortion might also cast doubt on our conclusions. Along those lines, it could be argued that because of social desirability, respondents would be more likely to inflate their scores on agreeableness and artificially deflate their scores on normative myopia and preference for relatively high pay dispersion. For various reasons, we do not believe that this alternative explanation accounts for our findings, primarily because we put heavy emphasis on assuring the anonymity, confidentiality, and desired descriptive accuracy of responses. In addition, there is some evidence that response distortion tends to be low for personality measures, especially if little or nothing is at stake for the respondent (Barrick & Mount, 1996; McClelland & Rhodes, 1969; Schwab & Packard, 1973). It should also be noted that because the mean score of normative myopia was close to the midpoint of the scale, most of the items, some reverse coded, did not elicit socially desirable responses (cf. Tables 1 and 2). Finally, social desirability might have had no impact on the dependent variable, preference for pay dispersion, because Australia, the location for the study, is a highly individualistic country, much like the United States (Hofstede, 2001). Egalitarianism does not register as an important social norm in either country (Hofstede, 2001). Hence, response distortion of the dependent variable because of social desirability is unlikely.

Even so, we double-checked the data for response distortion. First, some of the respondents' comments to open-ended qualitative questions clearly invoked self-interest, which indicates relatively honest responses. We have no reason to think that respondents would be candid in their qualitative responses but dishonest in quantitative indicators. Second, we did not see any evidence of range restriction in our measures. The standard deviations were relatively large, especially if divided by the means (cf. Table 2). If all respondents gave socially desirable responses, range restriction (i.e., a small standard deviation) would occur around a relatively high mean.

Furthermore, if all responses were distorted to the same extent, a constant would de facto be added to each true score τ_{NM} of normative myopia. As can be shown mathematically, an addition of a constant does not affect correlation or standardized regression coefficients. In fact, prior empirical evidence shows that response distortion does not attenuate the predictive validity of personality measures (Barrick & Mount, 1996). Finally, an argument that social desirability bias accounts for our findings begs an explanation of why other personality measures (Conscientiousness, Emotional Stability, and Openness to Experience), which are more likely to be associated with greater degrees of social desirability in work settings, were not found to be correlated with normative myopia (cf. Table 4).

Put differently, to argue that social desirability accounts for our findings is equivalent to arguing that only certain respondents are prone to response distortion on certain items. This issue probably warrants future empirical examination in a research design similar to Barrick and Mount's (1996). Such a study would specifically control for the effects of impression management and self-deception, the two elements of response distortion.

Our exploratory measurement of normative myopia is another area in need of improvement. As shown in Table 1, the factor loadings hover in the 50s and 60s. Consistent with this suboptimal factor structure, internal reliability for normative myopia was satisfactory but relatively low ($\alpha = .73$)—especially given the relatively high number of scale items (12). This low reliability may attenuate our findings. Orlitzky and Benjamin (2001) and Orlitzky, Schmidt, and Rynes (2003) explain how and why unreliable measures attenuate statistical associations in a related research domain. Applied to this area, the real relationships between normative myopia and its predictor and consequence may, in fact, be higher than they appear in this study, at least as far as the multiple regressions are concerned (as pointed out above, we corrected for measurement error in the structural equation models). Unreliability not only attenuates mean associations, but it makes statistical relationships less certain because of increased confidence intervals around mean values. An improved scale of normative myopia, which would ideally be shorter yet exhibit higher reliability, would reduce such empirical uncertainty.

Overall, the limitations of our study should be considered in light of the fact that as far as we know, we are the first researchers to develop a survey instrument to operationalize normative myopia. Moreover, we sampled an executive population notoriously difficult to access. Because our sample response rate was quite high (68%), we can have greater confidence in the generalizability of our findings compared to more typical response rates of 10% to 30%.

Conclusion

In this study, we have investigated personality as a predictor of executives' normative myopia and preference for highly stratified systems of organizational pay. Our findings suggest that more agreeable executives are less prone to normative myopia and less apt to prefer disproportionately top-heavy compensation systems. In terms of corporate social performance, these types of executives might also be more adept at guiding organizations to respond constructively to stakeholder expectations of social responsibility. This prospect is highly relevant to future business and society inquiry, especially given the recent spotlight on corporate malfeasance and escalating levels of executive salaries.

Notes

1. Swanson's (1999) article was awarded The Best Article in Business and Society in 2001, given by the International Association for Business and Society in association with *California Management Review*.

2. Mentioned later, the following traits compose the complete five-factor model of personality: Agreeableness, Conscientiousness, Extraversion, Emotional Stability, and Openness to Experience. For discussions of this model, see Digman (1990), Hogan, Hogan, and Roberts (1996), or McCrae and Costa (1997).

3. Future research could examine in greater detail the personality dynamics related to Quadrants I and III. For instance, Quadrant I might include tyrants, terrorists, and others who justify selfish actions through manipulative appeals to other-regarding values to maintain a positive self-image and favorable role identity while not openly professing egotism, manipulation, and abuse of power. On the other hand, Quadrant III could represent individuals who deny the other-regarding values that influence their decisions, thereby succumbing to "moral muteness" intentionally or unintentionally (cf. Bird & Waters, 1989; Jackall, 1988; Toffler, 1986; Weaver & Treviño, 1999). In other words, managers may score high in other-regarding values, but education or other factors may train them to deny these values in their professed decision-making style. Given the nature of these dynamics, future studies would probably have to rely on a variety of data collection strategies, not only self-reports.

4. It is important to note, though, that other studies, especially older ones (e.g., Derry, 1989; Lifton, 1985; Rest, 1986; Snarey, 1985), found few or no such differences between the sexes (for a review, see J. Weber & Wasieleski, 2001).

5. Although our study was confined to Australia, it can be argued that our findings are highly relevant to executives in the United States (Swanson & Orlitzky, in press). According to Hofstede's (2001) well-known cultural comparisons, Australia is the country most similar to the United States in individualism and power distance. In fact, no other countries score as closely on these two dimensions. The shared emphasis on individualism equates to a preference for personal initiative rather than an emotional dependence on a community of others that marks collectivism. The similar scores on power distance mean that both cultures tend to justify power distance or inequities in prestige, wealth, and status by expertise legitimized through reward systems. The two countries are also very close in masculinity and uncertainty avoidance, the former denoting

a predominant socialization pattern for men to appear autonomous, aggressive, and dominant and for females to appear nurturing, helpful, humble, and affiliating. That both cultures score similarly in uncertainty avoidance translates into a relatively high tolerance for ambiguity and informal work arrangements. In the final analysis, a preference for individualism (vs. collectivism) is believed to have the greatest impact on management practice (Hoppe, 2004; Triandis, 2004). Given the cultural affinity between Australia and the U.S. in this area, and the other similarities, we can generalize our findings to a United States population of executives with a high degree of confidence, keeping in mind that we are in the preliminary stages of research.

6. Emotional Stability and Openness to Experience capture two other Big Five personality traits. *Emotional stability* refers to an individual's tendency to adjust confidently to psychologically challenging situations and, in particular, react well to stress. *Openness to experience* refers to an individual's tendency to be imaginative, original, and intellectually curious.

7. Because of considerations of space, these logistic regression results were omitted from the article but are available from the first author.

8. Swanson (1999) extended previous corporate social performance models, including those mentioned in the text, by conceptualizing normative myopia and value neglect on one hand and normative receptivity and value attunement on the other as ideal types or systems of logical implications drawn from extant research that can be used as contrasting points of reference for inquiry into the relationship between executive decision making and corporate social performance. By using this method, Swanson relied on M. Weber's (1947) construction of an ideal type as a simplified model that focuses attention on a phenomenon's distinctive features in order to highlight its logical implications systematically. In keeping with ideal-type modeling, we would expect executives to exhibit degrees of normative myopia and receptivity instead of pure forms of these decision processes. In fact our survey, described in the Method section, is designed to measure normative myopia on a scale from 1 to 5. The same is true on the organizational level in that Swanson conceptualized value neglect and value attunement as contrasting points of reference for corporate social performance influenced by executive normative myopia and receptivity, respectively. Because Swanson's theoretical perspective is based on ideal types or systems of logical implications across the individual, organizational, and societal domains, it lends itself to research that seeks to understand the antecedents and moderators of specified relationships, which is what our study is intended to do, although limited in scope.

9. Methodological research shows that common method variance does not result in as much inflation of correlations as was typically assumed (Crampton & Wagner, 1994; Spector, 1987). A survey of business research published in top-tier journals also revealed that structural equation models and confirmatory factor analyses are often based on cross-sectional data from the same source. We collected lagged data from the same source.

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