

HOW LEADER INTERACTIONAL TRANSPARENCY CAN IMPACT FOLLOWER
PSYCHOLOGICAL SAFETY AND ROLE ENGAGEMENT

By

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University of Nebraska, 2008

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Leader-driven interactional transparency is defined as a leader sharing relevant information, being open to giving and receiving feedback, being forthcoming regarding motives and the reasoning behind decisions, and displaying alignment between words and actions to his or her followers. This study examines how leaders can develop interactional transparency with their followers, garnering in return increased follower role engagement and participation in decision-making. I found that through the mediating construct of psychological safety, followers were be more likely to become engaged with respect to their role within the organization, have greater trust in their leader, and have higher job satisfaction. Further, I found that leader positive affect moderated the relationship between leader-driven interactional transparency and psychological safety, a condition within which followers feel secure when sharing ideas, criticisms, questions, and opinions. These relationships existed both within the same time periods, and grew stronger when examined across-time. This dissertation includes an introductory chapter, literature review chapter and accompanying hypotheses, a methods chapter describing the means by which we tested the hypotheses, presentation of results, and a discussion chapter.

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DEDICATION

This dissertation is the product of many efforts and discussions associated with the Gallup Leadership Institute (GLI). I would foremost like to thank my advisor, Bruce Avolio, who has challenged my ideas and abilities in order to better shape this intellectual contribution. I have been very fortunate to work with him, and feel my work is better because of that relationship. I am also honored to be mentored by the rest of my doctoral committee; Fred Luthans, Mary Uhl-Bien and Calvin Garbin who have been continual sources of support, motivation and strong role models for my scholarly development.

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HOW LEADER INTERACTIONAL TRANSPARENCY CAN IMPACT FOLLOWER PARTICIPATION IN DECISION-MAKING AND WORK ENGAGEMENT

CHAPTER ONE: INTRODUCTION TO THE STUDY

Purpose of the Study

Leadership is a social influence process in which leaders can motivate or persuade followers to achieve specific goals (Day, 2000). In the past, the majority of organizations were bureaucratic in structure, where leaders were granted authority based upon their legitimate power (French & Raven, 1959). In this hierarchical structure, followers were supposed to concede to this power and adhere to the instructions that were given by the leader (Schneider, 2002). However, instances of social undermining, or behaviors that display negative affect, negative evaluations or criticisms, and/or hindrance actions that preclude members of an organization from reaching stated goals, offer evidence that although followers may not have actively spoken up when their leaders made certain judgments, their passive resistance took a toll through counterproductive behaviors such as theft, absenteeism, and disengagement (Duffy, Ganster, & Pagon, 2002; Rook, 1992; Skarlicki & Folger, 1997; Vinokur & van Ryn, 1993). By enacting these types of silent, passive-aggressive behaviors, many individuals, including co-workers, managers, and leaders within the organization suffer the consequences (Duffy et al., 2002). However, research suggests that if leaders can create an environment where employees are able to speak up and have a voice in the organization, even when frustrated or unsupportive of organizational initiatives; positive outcomes, such as implementation of new practices and decreasing ambiguity, occur (Edmondson, 2003; Morrison & Milliken, 2003).

Recent examples regarding changes in organizational structure offer different suggestions that may help explain why stakeholders are more likely to question the authority and decision-making processes of organizational leaders. The U.S. economic structure has changed from one based on raw material production factors (i.e. manufacturing) to one of knowledge-based people factors (i.e. services). In concert with this change, the labor force has shifted from following orders to creating ideas and thinking about change and adaptability (Schneider, 2002). In the past, followers may have been less likely to question orders; however, more recent and more publicly questioned examples of corporate misdeeds and uncertainty around leaders' and/or followers' loyalties, coupled with unprecedented access to information through information technology, have fostered a growing intolerance by stakeholders to accept decisions with unquestioning allegiance (Ciulla, 2000).

It has been suggested that in order to create leaders who are accepted by followers and who can withstand the scrutiny dictated by an information society, we should focus on the genuine and authentic development of leaders (Gardner, Avolio, Luthans, May, & Walumbwa, 2005). Authentic leaders "act in accordance with deep personal values and convictions, to build credibility and win the respect and trust of followers by encouraging diverse viewpoints and building networks of collaborative relationships with followers" (Avolio, Gardner, Walumbwa, Luthans, & May, 2004). Interactional transparency, one component proposed within authentic leadership theory, may allow leaders at all levels of organizations to communicate their ideals and values to their followers while promoting interactions with them that facilitate candid discussions and the introduction of different points of view. I explore in this dissertation how leadership creates these conditions which in turn creates the perception of psychological safety and generates follower engagement in their role and decision-making processes, trust in the

leader, and also aids in the sharing of relevant information. Likewise, I posit that interactional transparency also has an indirect but positive relationship with follower performance and job satisfaction.

Origins of Transparency

The notion of transparency stems from the regulatory domain of public accounting and finance and also the self-disclosure domain of psychology (Bushman, Piotroski, & Smith, 2004; Gelos & Wei, 2005; Jourard, 1964). According to the accounting and finance literature, transparency occurs when a corporation makes available its financial and other firm-specific information to stakeholders (Bushman et al., 2004).

In the self-disclosure literature, transparency is defined as the process by which one makes him- or herself known to others by sharing deep thoughts, values, and feelings (Jourard, 1964). Coupled together, these concepts, when applied to leaders within organizations, suggest that transparency is a process by which leaders share information specific to the organization or about themselves with their stakeholders, which could be direct reports, indirect reports, customers, peers, etc.

Although communication has been studied within organizations, it has usually been studied in a top-down manner consistent with the form of hierarchical organizations (Goldhaber, 1990). Furthermore, communication has often only been studied as a one-way process, looking at how actions of leaders are perceived by followers (Rogers, 1987). I feel it is important to consider the interactive effects of leader behaviors, specifically, how those behaviors are reciprocated and responded to by followers. Access to information by all stakeholders and the

questioning nature of an information-hungry generation is creating a new organizational paradigm, and the notion of transparency as a construct is emerging along with it.

In a sense, I extrapolate the understanding of organizational requirements regarding open books to that of organizational leaders also “opening their books”. It has been established in the literature that one person’s disclosure of personal information leads to subsequent disclosure by others included in the relationship (Jourard, 1971); it is now important to explore this type of relationship within the organizational behavior domain to determine if what holds true for interpersonal relationships can also generalize to the leader-follower relationship. By doing so, could we expect that in a manner similar to financial transparency, where organizations foster loyalty and acceptance for their business processes, transparent leaders could cultivate favorable acceptance of their decisions by their followers? In the same way stakeholders trust the organizations they invest in, followers would trust their leaders due in part to their participation and engagement in the organization.

Implications for Trust

Trust exists when an individual shows a willingness to be vulnerable to another individual, without knowing what the outcomes may be (Rousseau, Sitkin, Burt, & Camerer, 1998). Anecdotally, individuals have stated that they trust leaders who are more open and transparent about their decision-making processes (Baum, Locke, & Kirkpatrick, 1998). In addition, initial evidence from an experimental study has shown that when manipulated with scripts, leaders who act in a more transparent manner foster more trust with their followers (Vogelgesang & Lester, 2006).

Although not empirically explored in association with psychological safety, trust has been connected to a constellation of related variables. Positive relationships exist for the outcomes of belief of information provided by the leader and follower commitment to decisions, and the antecedents of perceived organizational support and participation in decision-making (Dirks & Ferrin, 2002). Negative relationships exist with the outcomes of perceived psychological contract breach and unmet expectations (Robinson, 1996). These findings offer the suggestion that when followers feel they have support from their leaders and have a voice or choice in procedures, that they will then have more commitment to decisions, believe in the information shared by the leader, believe their expectations have been met, and overlook possible psychological contract infringements. Therefore, although not specifically stated in the literature, it has been theorized that psychological safety is a contributing factor to a followers' trust in their leader (Edmondson, Kramer, & Cook, 2004).

In sum, the popular press continually discuss the need for transparency with regard to our leaders, yet there is little empirical support for this belief. In this dissertation, I intend to explore this emerging construct to determine if it will enhance follower outcomes that may relate to individual performance.

Transparency in the United States Government and Military

A recent Gallup Poll indicated that 81% of America trusted members of the U.S. Congress only Some, Very Little, or None – with 19% indicating they trusted Congress either A Great Deal or Quite a Lot ("Gallup poll: Trust in U.S. Leadership", 2006). Recent scandals in both the House and Senate during 2005-2006 likely influenced the low support indicated, given that high ranking members of our government were involved in bribery, kickbacks, and other

forms of graft, as well as several instances of personal misconduct in members' private lives. Likewise, faith in government institutions such as the Federal Emergency Management Agency (FEMA), and its ability to handle future disasters fell to less than 50% following Hurricane Katrina due to the agency's mismanagement of the disaster relief ("ABC news: Hurricane Katrina poll", 2006). Unprecedented access to evidence concerning miscommunications, mismanagement, and poor decision-making gave rise to public outcry for new leadership and new strategies to handle disasters in the future.

In both examples described above, a lack of perceived leader transparency likely influenced how the American public viewed the organizations. While the impact of transparency in the public policy context is an empirical question that goes beyond the scope of the study presented here, what is clear is that many people lack faith in the basic, bedrock institutions that help to define the United States. Could transparency have helped to prevent the errors in judgment or alleviated post-event backlash? In short, I believe so.

Transparency perhaps plays no bigger role than in the U.S. armed forces. The military prides itself on the free flow of unclassified information to members and the public at large. Unlike the vast majority of their civilian counterparts, members of the armed forces have a plethora of potentially sensitive information at their fingertips. For example, a soldier can simply log on to his or her computer and determine how much leaders or peers are paid, the current promotion rates, or job listings and requisite qualifications – all of which is “open-source” public information. Likewise, military regulations require that members of the armed forces be counseled by their immediate leader at least once per quarter, which provides the follower an opportunity to not only discover how he or she performed since the previous counseling session, but also to discuss how the leader intends to utilize the follower in the future

("Field manual 22-101", 1990). Furthermore, the leaders of the armed forces must often make themselves accountable to the elected leaders of the United States Congress. In sum, the military has regulation-backed systems in place to help foster leader transparency.

Although the American public still holds the military in high esteem, with 73% answering A Great Deal or Quite a Lot in regards to trust in the same poll discussed above ("Gallup poll: Trust in U.S. Leadership", 2006), there are also some troubling issues that suggest increased attention should be paid to transparency. For example, the mishandling of the Pat Tillman fratricide incident led to no fewer than *five* subsequent investigations stemming from the public's belief that Army leaders hid critical information to the case (White, 2005), and is still a leading news story more than three years after his death. Additionally, reminiscent of the My Lai incident during the Vietnam War, leader intent was once again questioned in the 2006 Haditha massacre, where Marines are accused of killing 24 Iraqi civilians (Knickmeyer, 2006) without legitimate provocation.

A lack of leader transparency likely played its most significant role in the Abu Ghraib prisoner abuse scandal. Specifically, a *60 Minutes* investigation determined that one Specialist failed to approach his chain of command with the pictures of prisoner abuse taken by a group of soldiers who were later convicted by court martial. Rather, the Specialist attempted to anonymously report the crime directly to the Criminal Investigation Division (CID), thereby eliminating any chance that his leadership could take unilateral action toward resolving the problems he uncovered. What is clear from the investigation is that the Specialist did not believe that his chain of command's involvement would be a viable solution, despite a complete lack of evidence supporting this notion. In short, the Specialist perceived that he could not speak out without fear of retribution (Taguba, 2004).

At stake here is that the military is a Critical Response Organization (CRO), an institution with many different interdependent components where small errors may lead to catastrophic events (Roberts, Stout, & Halpern, 1994) – in this context, failure for the military results in the loss of many lives and jeopardizes national interests. The coordination between leaders and followers in these types of environments can avert disaster (Faraj & Yan, 2006). This context highlights the importance of transparent interactions between leaders and followers, where followers perceive psychological safety and are able to bring issues and errors that might otherwise be ignored to light. Given the clear importance of transparency to the military, such a context is ripe for empirical investigation. As discussed in Chapter 3, a military sample will be employed in this study.

Theoretical Model

The model (see Figure 1) begins with the relationship of leader-driven interactional transparency with follower perceptions of psychological safety. I suggest that leaders who actively seek to create transparent interactions with their followers set the conditions for perceived psychological safety. In essence, if a leader is open with his or her follower(s), they will perceive decreased threats to responding with corresponding levels of openness. I also suggest that this reciprocal relationship is strengthened by the expression of positive affectivity by the leader, shown in Figure 1 to moderate the relationship between leader-driven interactional transparency and follower perceptions of psychological safety. Psychological safety exists when individuals feel they can freely offer their opinions and values without fear of retaliation from others (Edmondson, 1999; Kahn, 1990; May, Gilson, & Harter, 2004).

I further suggest that when followers perceive higher levels of psychological safety, they will be more engaged in their organizational role, participate more often in decision-making processes, and have more trust in their leader. Therefore, in the model, psychological safety mediates the relationship between leader-driven interactional transparency and follower outcomes of role engagement, participation in decision-making processes, and trust in the leader. Furthermore, these variables are also expected to be positively associated with the performance outcomes and the job satisfaction of followers.

Role engagement is an individual's "energetic and effective connection with their work activities" and is viewed as a positive state (Schaufeli, Bakker, & Salanova, 2006p 702). Past research has shown a positive relationship between psychological safety and engagement (May et al., 2004). This dissertation adds to the existing literature by exploring this relationship in a rigorous manner, allowing for the explication of a causal link between these two variables.

Participation in decision-making is established by an individual having voice and/or choice in the decision making process. Voice allows the employee to make his or her opinions known to the decision-maker, but does not necessarily have control over whether or not that opinion is part of the outcome; whereas choice describes a situation in which the employee has control over the decision (Thibaut & Walker, 1975). Although there has been no published research suggesting a direct link between psychological safety and participation in decision-making, the operational definition of psychological safety, a work environment where employees are "safe to speak up without being rejected or punished", suggests the voice aspect of participative decision-making (Edmondson, 2003). Furthermore, relationships between the climate-level variables of psychological safety and initiative offer evidence of a relationship that might also exist at the individual level (Edmondson, 2003).

When embarking on an empirical study, it is important to denote the level of analysis and level of measurement (Rousseau, 1985). The model is depicted at the individual level of analysis, therefore all measures were collected at the individual level.

The model begins with the idea of leader-driven interactional transparency, which is measured from both leaders and followers at the individual level about the leader. Psychological safety, engagement, participation in decision-making, and trust in the leader are measured by the followers at the individual level of analysis. Leader and follower performance is measured at the individual level of analysis by third party ratings.

Now that I have briefly explained the constructs, variables and relationships that I am interested in exploring, what remains to be seen is whether or not leaders can be developed to foster transparent interactions, and how and why those interactions relate to follower outcomes. Although transparency may also have a reverse effect, whereby transparency cascades up from followers to leaders, my focus for purposes of this study is on leader-driven, transparent interactions between leaders and followers, and also on exploring whether or not leader transparency can become a learned behavior via training. As outlined in Chapter 3, an interactional transparency training intervention is applied specifically to the leader, but the outcomes are measured at the follower level about both leader behaviors and follower outcomes.

Insert Figure 1 about here

Research Questions

Given the discussion above, several basic research questions focusing on transparency between leaders and followers are addressed in this study. These questions include:

1. *To what extent can leader-driven interactional transparency relate to follower perceptions of psychological safety?*
2. *To what extent can leader-driven interactional transparency relate to follower outcomes of participation in decision-making processes through the creation of psychological safety?*
3. *To what extent can leader-driven interactional transparency relate to follower outcomes of role engagement within the organization through the creation of psychological safety?*
4. *To what extent can leader-driven interactional transparency increase the amount of trust followers have in their leader through the creation of psychological safety?*
5. *Is follower performance as rated by a third party observer related to the creation of leader-driven interactional transparency?*
6. *To what extent does leader positive affect moderate the relationship between leader-driven interactional transparency and follower perceptions of psychological safety?*

Organization of the Dissertation

This dissertation is organized into five chapters. The first chapter introduced the purpose of the study, outlined gaps in the current literature and the necessity for this study, and identified a series of research questions to guide the empirical study proposed here. Chapter Two reviews the literature of leadership, transparency, psychological safety, follower engagement, positive affect, trust, and participation in decision-making and outlines a series of hypotheses to be tested. Chapter Three provides the experimental design

framework, measures, and methodology that will be used in this study. Chapter four presents the results through statistical analyses. Finally, chapter five discusses the major findings and implications for future scientific research and practice.

PREVIEW

CHAPTER 2: LITERATURE REVIEW

As suggested in the introduction, organizations are evolving from bureaucratic structures with top-down communication into complex systems where information originates from all directions. The over-arching research question I pose is “How can leaders harness the power of information accessibility and use it to create the conditions for more engaged and participative followers?” The study discussed in Chapter 3 will explore whether or not training leaders to create interactional transparency with their followers fosters psychological safety, and whether that psychological safety will reap positive effects for leaders and followers. Since interactional transparency has yet to be fully tested in this manner, I first describe transparency at the firm and national level, as well as at the individual (personal) level. Later, I focus on the follower outcomes of perceived psychological safety, engagement, and participation in decision-making. In this discussion, I also address the relationship of leader positive affect with these follower outcomes, and how this literature informs us as to how the underlying processes unfold.

Transparency in Business Settings

The idea of transparency gained traction with the passage of the Sarbanes-Oxley Bill of 2002, which regulates the accounting and financial disclosures of public organizations in the United States. As highlighted in each of the following sections, the disciplines of financial studies, international management, strategic management, and psychology add to the understanding of the construct of interactional transparency, but do not completely explain this concept in the organizational behavior paradigm.

The Conceptualization of Transparency in the Financial Studies Literature