Leadership and the Fate of Organizations

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This article concerns the real-world importance of leadership for the success or failure of organizations and social institutions. The authors propose conceptualizing leadership and evaluating leaders in terms of the performance of the team or organization for which they are responsible. The authors next offer a taxonomy of the dependent variables used as criteria in leadership studies. A review of research using this taxonomy suggests that the vast empirical literature on leadership may tell us more about the success of individual managerial careers than the success of these people in leading groups, teams, and organizations. The authors then summarize the evidence showing that leaders do indeed affect the performance of organizations—for better or for worse—and conclude by describing the mechanisms through which they do so.

Keywords: leadership, leadership effectiveness, organizational psychology

The psychological literature on leadership is quite extensive and contains some useful generalizations about the links between personality, cognitive ability, leadership style, and evaluations of leadership potential and performance (cf. Bono & Judge, 2004; Ilies, Gerhardt, & Le, 2004; Judge, Bono, Ilies, & Gerhardt, 2002; Judge, Ilies, & Colbert, 2004; Lord, DeVader, & Alliger, 1986). Psychologists also know that certain leadership styles are associated with certain effects—considerate leaders enhance the job satisfaction of subordinates, structured leaders have higher performing teams, and transformational leaders inspire greater commitment (Judge & Piccolo, 2004; Judge, Piccolo, & Ilies, 2004; Lowe, Kroek, & Sivasubramaniam, 1996). And we know what styles are appropriate to what conditions (Peters, Hartke, & Pohlman, 1985; Schriesheim, Tepper, & Tetrault, 1994; Strube & Garcia, 1981)—for instance, a task-oriented approach is better when leaders have a high degree of control over the situation, whereas a people-oriented approach is better when control is moderate.

Nonetheless, people outside the academic community seem not to be overly impressed with what psychologists know about leadership (R. Hogan, Curphy, & Hogan, 1994). For example, in an article concerning the coming war for talent, *The Economist* magazine noted that even if organizations are able to recruit talented people, they will not know how to lead them because "human resources as a discipline has not achieved anything like the level of sophistication of, say, finance" ("Everybody's Doing It,"

2006, p. 5). Evidently our message needs to be sharpened and refined.

This article concerns the real-world importance of leadership for the success or failure of organizations and social institutions. We begin by defining leadership; we then offer a taxonomy of leadership criteria based on the distinction between perceptions of individuals in leadership roles (i.e., managers) and the actual performance of the teams and organizations they are supposed to lead. Next, we review the literature using our taxonomy; this leads to the conclusion that most leadership research concerns how individual managers are regarded and is less informative with regard to how they affect group performance. This distinction is important because the factors correlated with a successful career in management are not necessarily the same as those associated with leading a successful team. We then summarize the evidence showing that leaders do indeed affect the performance of organizations, for better or worse. We conclude with a review of the psychological and management literatures regarding the mechanisms by which leaders shape the fate of organizations.

Defining Leadership

Every discussion of leadership depends on certain assumptions. We assume that leadership is a solution to the problem of collective effort—the problem of bringing people together and combining their efforts to promote success and survival (R. Hogan et al., 1994; R. Hogan & Kaiser, 2005). Three implications of this view should be noted. First, leadership involves influencing individuals willingly to contribute to the good of the group. Second, leadership requires coordinating and guiding the group to achieve its goals. Finally, goals vary by organization—General Motors serves a different purpose than Microsoft, Wal-Mart, and the New England Patriots—but most organizations are in competition with other organizations for scarce re-

Robert B. Kaiser

sources, and this is the appropriate context for understanding group performance.

Our emphasis on social influence and group goals is consistent with what the field generally offers (cf. Bass, 1990; House & Aditya, 1997; Yukl, 1989; Zaccaro & Klimoski, 2001). Although most scholars agree that groups compete and that leadership has implications for group performance, the context of competition is not always made explicit. For instance, functional theories maintain that leadership is a resource for team performance and adaptation (Hackman & Walton, 1986; Lord, 1977; Zaccaro & Klimoski, 2001) and the fact that teams compete is implicitly understood; we want to make it a focal issue.

Measures of Leadership

The psychological study of leadership is about 100 years old, and the resulting literature is enormous. It is instructive to consider the various ways leadership has been measured. One tradition defines leadership in terms of *emergence*—exercising influence in a group of strangers or attaining high status in a social system. Another tradition considers leadership *effectiveness*. Some studies define leadership effectiveness in terms of the evaluations of managers. Other studies define leadership effectiveness in terms of how managers affect employee satisfaction, motivation, and unit results. There is also a variety of measurement methods. Sometimes leadership ratings are gathered from superiors, sometimes from subordinates. In addition to these subjective measures, there are also objective measures such as productivity or rate of voluntary turnover. One recent study used CEO personality to predict historiometric ratings of executive team dynamics and financial measures of organizational performance (e.g., revenues and

return on assets; Peterson, Smith, Martorana, & Owens, 2003).

The methodological diversity in this research suggests a robust literature but may also reflect a lack of definitional clarity. For example, the early work on personality and leadership appeared to produce inconsistent results, prompting reviewers to dismiss its importance (Mann, 1959; Stogdill, 1948). However, Lord et al. (1986) noted that this early research confused *how leaders are perceived* with *how their teams perform*. After sorting studies based on this distinction, they found consistent relationships between how leaders are perceived and such personality characteristics as adjustment, dominance, and inquisitiveness (Lord et al., 1986). Thus, distinguishing between people who seem leaderlike and the performance of their teams brought considerable clarity to the literature. It also demonstrated the importance of distinguishing appropriately among different leadership metrics.

Toward a Taxonomy

We reviewed 10 meta-analytic studies (described below) to determine how leadership has been measured in past research.[1] These meta-analyses included evaluations of over 280,000 leaders from 1,124 samples and 1,695 statistical tests of the relationship between predictor variables (e.g., leader personality, leader behavior) and leadership criteria (e.g., emergence or effectiveness).

We content analyzed the criterion variables used in the meta-analyses and identified two categories of leadership measures, each with two subcategories. The first category concerns measures focusing on individual leaders; the second category includes measures focused on groups, teams, and organizations. This categorization parallels Lord et al.'s (1986) distinction between how a leader is *perceived* and the *effectiveness* of the group for which the leader is responsible.

Perceptions of individuals. There are two unique perspectives on the individual leader as the unit of analysis—leadership emergence and perceived effectiveness—and this distinction has a long history in scholarly research (Judge, Bono, et al., 2002). Leadership emergence refers to being perceived as leaderlike, usually in a group of strangers, as discussed in studies of small-group processes (Bales, 1950; Geier, 1967) and leaderless group discussions

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[1] There are more leadership meta-analyses than these 10. We did not include all of them in our review for three reasons. First, some studies did not consider leadership outcomes (e.g., the Eagly, Johannesen-Schmidt, & van Engen [2003] study of gender and perceptions of leadership style). Second, the samples in some meta-analyses have been included in updated studies, and we used the more recent and inclusive ones (e.g., Judge & Piccolo's [2004] study of transformational/transactional leadership subsumes the sample in Lowe et al. [1996]; Judge, Bono, et al.'s [2002] study of personality subsumes that of Lord et al. [1986]; Judge, Piccolo, & Ilies's [2004] study of consideration and initiating structure subsumes most of the Woffard & Liska [1993] analysis of House's [1971] path-goal theory). Finally, there was ambiguity in the criterion coding in the three meta-analyses of Fiedler's (1967) contingency theory (Peters et al., 1985; Schriesheim et al., 1994; Strube & Garcia; 1981). The authors of these three studies did not describe in sufficient detail the measures of leader effectiveness in the primary studies they collected.

Robert Hogan

(Bass, 1954). Measures of emergence include observer ratings, peer ratings, and formal nominations for leadership roles (Anderson & Wanberg, 1991; Lord et al., 1986). Leadership emergence is also measured by the quantity and quality of an individual's participation in leaderless groups (Mullen, Salas, & Driskell, 1989; Sorrentino & Boutillier, 1975). As Judge, Bono, et al. (2002) noted, these are within-group phenomena—emerging as a leader concerns relative standing among members of a social group. For the same reason, we also include in this category ratings of "potential" or perceived likelihood of advancement (e.g., Bray & Grant, 1966). Again, emergence is defined by observers perceiving a person as leaderlike (R. Hogan et al., 1994; Lord et al. 1986), and we refer to this subcategory of individual measures as "standing out in a crowd."

The second type of individual measure concerns an individual's perceived effectiveness in a leadership role. Examples include Tsui's (1984) reputational effectiveness scale (sample item: "Overall, to what extent do you feel *this manager* is performing his or her job the way you would like it to be performed?"), Quinn's (1988) effectiveness scale (e.g., "*This person's* degree of overall managerial success": 1 = *a failure*, 5 = *a success*), and Bass and Avolio's (1997) measure (e.g., "*This person* is effective in meeting others' job-related needs": 1 = *not at all*, 5 = *frequently, if not always*). Researchers have also measured leader effectiveness by aggregating ratings across multiple performance dimensions (e.g., vision, communication, delegation) to form a composite score.

Factor-analytic studies consistently find that a single dimension accounts for most of the variance in leadership ratings (e.g., Bass, 1990; Russell, 2001; Scullen, Mount, & Goff, 2000). Further evidence indicates that this general factor has a large affective component, which means that these ratings reflect how raters *feel* about the manager being evaluated. For instance, Brown and Keeping (2005, p. 245) concluded that ratings of leadership are "highly influenced by the interpersonal affect raters feel towards the target being rated." This is consistent with field studies that find performance appraisals to be a function of how well the evaluator likes the person being evaluated (Varma, DeNisi, & Peters, 1996). Thus, effectiveness ratings of leaders are like job approval ratings for the president of the United States, and we refer to this second subcategory of individual measures as "approval" because of its close association with affect.

Approval measures involve judgments about an *individual* vis-à-vis implicit expectations for incumbents in a leadership role (cf. Lord & Maher, 1991). These standards vary with the status of the evaluator; overall evaluations of leaders from subordinates, peers, and superiors are a function of different factors.[2] For example, subordinate ratings reflect facilitation of group process, reduced performance monitoring, and trust in the leader, whereas superior ratings reflect the leader's education, technical competence, and achievement orientation (e.g., J. Hogan & Harris, 1992; Hooijberg & Choi, 2000). This may explain why ratings from subordinates, peers, and superiors are only modestly correlated (Conway & Huffcut, 1997). Moreover, ratings from subordinates may be more appropriate measures of leadership because they represent evaluations of one's leader (R. Hogan et al., 1994), whereas ratings from superiors are evaluations of one's subordinate. Nonetheless, ratings from superiors are frequently used to evaluate leadership effectiveness, both in academic research and in organizational practice.

In summary, we classify measures focusing on individual leaders as either "standing out" or "approval," a classification that parallels the long-standing distinction between emergence and perceived effectiveness. "Standing out" concerns being seen as leaderlike; "approval" concerns others' judgment of a person's performance as a leader. Finally, both "standing out" and "approval" are perceptual categories of leadership (Lord et al., 1986) that focus on the characteristics of *individuals.* However, leadership is a collective phenomenon (Avolio, Sosik, Jung, & Berson, 2003).

Group performance. The second category of leadership criteria concerns the effects leaders have on the performance of the teams for which they are responsible (R. Hogan et al., 1994; R. Hogan & Kaiser, 2005; Kaiser & Hogan, 2007). It is important to distinguish between two aspects of team performance, group process versus goal accomplishment—a distinction that is often blurred (Bales, 1950; Hackman, 2002). We distinguish between the two because how a team functions (process) is different from what it achieves (results).

Within the process subcategory of group performance measures, we further distinguish between the effects lead-

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[2] We thank an anonymous reviewer for suggesting that we address this issue.

S. Bartholomew Craig

ers have on individual subordinates/followers and the effects they have on teams as a whole. The psychological study of leadership has overwhelmingly focused on how leaders influence individual followers (Bass, 1990; Hunt, 1991); nonetheless, leaders also influence collective phenomena such as team dynamics (Hackman & Walton, 1986; Zaccaro, Rittman, & Marks, 2001) and climate and culture (Kozlowski & Doherty, 1989; Likert, 1967; Litwin & Stringer, 1968). Together, the effects of leaders on individuals and groups provide a multilevel perspective of group process (Yammarino & Dansereau, 2003); we refer to this category as "How did the team play?"

Factors other than leadership affect group processes. For example, follower personality predicts job performance (J. Hogan & Holland, 2003) and job satisfaction (Judge, Heller, & Mount, 2002), and organizational culture influences group dynamics (Schein, 1992). Recognizing this, Katz and Kahn (1978) described leadership as an incremental influence above and beyond these individual and organizational factors (cf. McGrath, 1962). Group process variables, then, are the proximal means by which leaders affect group results (Kaiser & Hogan, 2007).

The second category of group-level measures of leadership concerns the results a group achieves. We call this category "Did the team win?" because it reflects the outcome of a group's competition with its rivals. There are several kinds of organizational outcomes, none of which is an adequate proxy for overall group performance; considered together, however, they provide a more complete and balanced view of performance (Campbell, Dunnette, Lawler, & Weick, 1970; Kaplan & Norton, 1996). Organizational outcomes include measures of productivity (quantity and quality of goods or services), financial performance (revenues, costs, profits), customers (satisfaction,

retention, growth), human resources (turnover, safety, human capital), and innovation (product and process improvements). These outcomes are objective—their value usually does not depend on subjective judgments. Although these outcomes may be rated, "true scores" are available for productivity, financial performance, and so forth.

Our taxonomy of leadership criteria is summarized in Table 1.

Relative Frequency of Alternative Measures

Robert B. Kaiser and a research assistant used this taxonomy to classify and then count the criterion measures found in the leadership meta-analyses listed in Table 2.[3] First we developed rules for assigning measures to one and only one category in the taxonomy. Next we independently coded the measures in each meta-analysis and then counted the number of times each type of measure was used in order to compute a validity coefficient. We agreed on 35 of the 40 cells (10 studies $\times$ 4 types of measures); Cohen's (1960) kappa coefficient was .85, indicating greater than chance levels of agreement. We resolved the 5 disparities by jointly reviewing the information provided in the appropriate articles.

Table 2 reports the number of times each type of leadership criterion measure was used. Two findings stand out. First, the research in these meta-analyses was somewhat more concerned with how individual managers are perceived than with group performance. Fifty-three percent of the analyses used criteria focused on individual managers, either "standing out" (emergence) or "approval" (perceived effectiveness). The most common criterion measure was *approval*—how raters felt about the performance of people in leadership roles. The second noteworthy finding is that, when it comes to organizational performance, researchers have studied how leaders influence group process much more often than they have studied how they affect group outcomes. In other words, we know more about the interpersonal and social effects of leadership than we do about its effects on bottom-line performance.

These data raise a question about the role of different criterion measures in leadership research. The *content* of the measure should depend on what one is interested in—for example, emergence or effectiveness. However, the *method* also deserves careful attention—especially when it comes to measuring leadership effectiveness. Approval measures concern how individual managers are regarded, whereas team process and outcome measures reflect how managers affect group performance. Understanding the characteristics associated with how leaders are perceived is interesting and useful information, but this information is primarily relevant to the careers of individual managers. "Standing out" concerns being selected for a leadership position, and "approval," particularly from superiors and peers, predicts career outcomes such as promotions and

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[3] We are grateful for assistance from Stuart G. Ferrell in content coding the criterion variables reported in the leadership meta-analyses.

Table 1
Taxonomy of Leadership Criteria

Unit of analysis: Individual leader		Unit of analysis: Group	
Emergence ("Standing out")	Perceived effectiveness ("Approval")	Process ("How did the team play?")	Outcomes ("Did the team win or lose?")
Peer nominations of leadership in leaderless groups	Ratings of leader/manager effectiveness	Follower/subordinate level	Productivity (e.g., quantity and quality of production or services, efficiency in transforming inputs into outputs)
Observer ratings in leaderless groups	Evaluations of leader/manager overall job performance	Attitudes (e.g., job satisfaction, intent to turnover)	Financial (e.g., revenues, costs, profits or returns)
Rate of participation in task-oriented group discussion	Aggregate ratings of manager/leader job performance across dimensions	Motivation (e.g., effort, efficacy, commitment)	Customers (e.g., satisfaction, retention, growth, market share)
Ratings of "potential" by superiors or from Assessment Centers	Subordinate ratings of satisfaction with *the leader or with supervision*	Knowledge (e.g., role clarity/ambiguity)	Human resources (e.g., turnover, safety, talent development)
Number of elected offices held (for students)		Behavior (e.g., task performance, citizenship, deviance)	Innovation (e.g., new products and services, process improvements, group learning)
Selection for a leadership role/job		Team level	
Promotion rate		Team dynamics (e.g., conflict, cohesiveness, coordination, communication, collective efficacy, morale, stress)	
		Culture/climate (e.g., risk tolerance, psychological safety, support for creativity, customer service orientation)	

Table 2
Frequency of Different Types of Criterion Measures in Leadership Meta-Analyses

| | | Criterion measure | | | |
| | | Unit of analysis: Individual | | Unit of analysis: Group | |
Meta-analysis	Topic	Emergence ("Standing out")	Perceived effectiveness ("Approval")	Process ("How did the team play?")	Outcomes ("Did the team win or lose?")
Burke et al., 2006	Team performance			3	110
Judge & Piccolo, 2004	Transformational and transactional		170	83	77
Judge, Ilies, & Colbert, 2004	Intelligence	74	34		40
Judge, Piccolo, & Ilies, 2004	Consideration and initiating structure		185	171	54
Dirks & Ferrin, 2002	Trust		13	71	
Judge, Bono, Ilies, & Gerhardt, 2002	Personality	127	95		
Gerstner & Day, 1997	Leader–member exchange		27	141	15
Eagly, Karau, & Makhijani, 1995	Gender and effectiveness		76	7	14
Eagly & Karau, 1991	Gender and emergence	75			
Mullen, Salas, & Driskell, 1989	Emergence	33			
Total		309	600	476	310
% of all meta-analyses		18%	35%	28%	18%

Note. Each count represents a bivariate statistical test of the relationship between a predictor variable and a leadership criterion.

salary level (Kraut, 1975; Ng, Eby, Sorensen, & Feldman, 2005; Scandura & Schriesheim, 1994; Wayne, Liden, Kraimer, & Graf, 1999). On the other hand, the impact that leaders have on group processes and team results affects the success of organizations and the viability of social institutions (R. Hogan & Kaiser, 2005; Kaiser & Hogan, 2007; Zaccaro & Klimoski, 2001). The fate of individual careers and the fate of organizations are distinct considerations, and as we have argued, evaluations of leadership effectiveness per se are more properly focused on organizational performance.

A Lesson in Waiting

Lord et al. (1986) and R. Hogan et al. (1994) distinguished between leadership measures that reflect how managers are regarded and measures that reflect how groups perform. Lord et al. (1986, p. 408) showed that these two classes of measures are unique and have different antecedents and consequences. However, this distinction has influenced leadership *theory* more than empirical *research*.

Consider, for example, the Judge, Bono, et al. (2002) meta-analysis of the personality–leadership literature. They defined leadership emergence as being perceived as leaderlike and leadership effectiveness as "a leader's performance in influencing and guiding the activities of his or her unit toward achievement of its goals" (p. 767). However, in their Method section, they stated, "Ratings were coded as measures of leadership effectiveness in cases in which a leader's effectiveness was assessed. *There were no cases in which group performance was the effectiveness measure*" (Judge, Bono, et al., 2002, p. 769, emphasis added). In terms of our taxonomy, their research on effectiveness concerns the effects of personality on the approval of individual managers rather than the effects of leader personality on team performance.

Our point is not to criticize the Judge, Bono, et al. (2002) study. Our point is that leadership research often focuses on how leaders are regarded and tells us little about leading effective teams. As Lord et al. (1986) noted, reviews of leadership research often wrongly conclude that the attributes that help managers gain recognition and approval also help organizations prosper. This is a persistent problem, the implications of which may be underappreciated.

The Fate of Careers Versus the Fate of Organizations

In an ideal world, career success and leadership competence would go hand in hand—that is, those people who are selected for leadership positions, who are well paid, who are promoted quickly, and who are well regarded by their bosses would also motivate employees, make good decisions, and build teams that produce results over time. But there are good reasons to believe that this is not necessarily the case.

Career Success and Organizational Effectiveness

Experienced observers suggest that what advances a manager's career is not necessarily what makes an organization effective. For instance, Leonard Sayles has studied managers for years using ethnographic and observational methods. Sayles (1993, pp. 198–199) noted that many managers believe that getting ahead depends more on looking good than leading effectively; he then offered the following "promotion tips": Avoid confrontation; withhold suggestions for improvement; do not ask your boss to champion "unpopular" positions; always agree with your boss; concentrate on presentation skills and looking good in meetings with superiors; demonstrate an intense desire to win career advancement and to best your peers; and try to find your next promotion because rapid advancement looks good.

Sayles (1993) concluded this (only partly tongue-in-cheek) advice by noting that many senior managers seem unconcerned about how well junior managers lead. The message is that overcoming organizational inertia, raising uncomfortable realities, and initiating adaptive change can wreck individual careers (see also Heifetz & Linsky, 2002). To paraphrase Voltaire, it is dangerous to be right when the organization is wrong.

Three lines of research suggest that the characteristics associated with career success are not the same as those associated with leading a team to success. The first concerns individual differences in orientation toward one's career versus one's team or organization. Ellemers, de Gilder, and Van den Heuvel (1998) showed that career commitment and team and organizational commitment are different constructs. These authors found distinct patterns of relationships between these types of commitment and organizational criteria (e.g., job satisfaction, work behavior). They concluded that career-oriented and team-oriented commitments are different—some managers focus on their careers and are relatively uninterested in their teams, whereas some are highly involved in both their careers and in their teams, and so on.

The second line of evidence comes from the so-called "derailment" literature. This research shows that many bright and ambitious executives nevertheless are fired, are demoted, or fail to advance (Bentz, 1985; McCall, 1998; McCall & Lombardo, 1983). R. Hogan and Kaiser (2005) reviewed surveys suggesting that about 50% of executives derail; they suggested that this failure rate reflects the fact that managers are rarely chosen on the basis of their talent for leadership. Dixon's (1976) study of the British military came to the same conclusion; senior officers preoccupied with status and promotion caused the death of tens of thousands of soldiers and the loss of dozens of strategic positions in the 19th and 20th centuries. These incompetent officers were promoted on the basis of their skill at managing impressions, not their skill at leading troops.

A third line of research contains studies directly evaluating the relationship between a manager's career success and the performance of his or her team. Luthans, Hodgetts,

and Rosenkrantz (1988) found that measures of career success (e.g., rate of promotion) and team performance (e.g., team morale and productivity) were unrelated. Less than 10% of their sample of general managers had both successful careers *and* effective teams (Luthans, 1988). Successful managers also spent their time differently than did effective managers—career success was associated with socializing, politicking, and networking with outsiders, whereas effective team leadership was related to communicating, motivating, disciplining, managing conflict, staffing, and training subordinates.

Studies of CEO charisma also show that career success and leadership effectiveness stem from different characteristics. One study of Fortune 500 firms found that CEO charisma predicted level of pay but not firm performance (Tosi, Misangyi, Fanelli, Waldman, & Yammarino, 2004). Although boards of directors and compensation committees may believe that charismatic CEOs add disproportionate value, the results of this study—as well as those of two others (Agle, Nagarajan, Sonnenfeld, & Srinivasan, 2006; Waldman, Ramirez, House, & Puranam, 2001)—suggest that this is not usually the case. In contrast, Collins (2001a, 2001b) surveyed the Fortune 1000 to identify companies that performed below the average of their business sector for 15 years and then performed above the average for 15 years. Remarkably, only 11 companies fit this profile, and in each case the firm's performance improved after a new CEO took over. These CEOs shared two characteristics. First, they were modest and humble, as opposed to charismatic. Second, they were extraordinarily persistent in their pursuit of the organizational agenda. Thus, although charismatic CEOs transform their personal wealth, modest and persistent CEOs with a talent for leadership transform lackluster organizations into effective competitors.

Implications

The research described above illustrates how having a successful career in management is not the same as leading an effective group, team, or organization. Further, the two outcomes have different antecedents: The personality characteristics, motives, and behaviors that predict career success differ from those that predict leading an effective team or organization.

Thus, we propose that the relationship between career success and leadership effectiveness is weak in the corporate population. This proposition is supported at the senior levels by the well-documented lack of a relationship between executive compensation and performance (Bebchuk & Fried, 2004; Gomez-Mejia, 1994; Jensen & Murphy, 1990) and at middle management levels by Luthans et al.'s (1988) finding of no relationship between the career success of managers and the performance of their teams. Although the overall trend indicates that leaders are not usually rewarded on the basis of the value they add to their organizations, in some cases they probably are. In other words, the relationship between career success and leadership effectiveness is likely to vary across organizations. So our second proposition is that when there is little relationship between career success and leadership effectiveness,

organizations are likely to struggle—bad strategy, poor execution, low morale, high turnover, and even corruption will drag them down. This is certainly the case with governments characterized by nepotism and cronyism. Conversely, we predict that organizations that choose and reward leaders on the basis of how their teams perform will be more likely to succeed and stand the test of time.

Leadership and the Fate of Organizations

The foregoing discussion assumes that leaders affect the performance of organizations. Although most people tend to take the importance of leadership for granted, many academics challenge this position. Some argue that the effects of leadership are minimal compared with historical, organizational, and environmental forces (Lieberson & O'Connor, 1972; Pfeffer, 1977; Salancik & Pfeffer, 1977). Others suggest that attributing organizational outcomes to individual leaders is a romantic oversimplification (Meindl & Ehrlich, 1987; Meindl, Ehrlich, & Dukerich, 1985). Similarly, complexity theorists maintain that organizational performance cannot be attributed to individual leaders because performance is an emergent phenomenon involving complex, nonlinear interactions among multiple variables in a dynamic system open to outside influences (Marion & Uhl-Bien, 2001).

Each of these views is contradicted by a simple empirical fact. Research on managerial succession over the last 20 years has consistently found a relationship between who is in charge and organizational performance as measured by a variety of indicators (e.g., Barney, 1991; Barrick, Day, Lord, & Alexander, 1991; Bertrand & Schoar, 2003; Collins, 2001a; Day & Lord, 1988; Joyce, Nohria, & Roberson, 2003; Thomas, 1988). Using different methodologies, these studies converged on the conclusion that changes in leadership are followed by changes in firm performance. Joyce et al. (2003), for instance, determined that CEOs account for about 14% of the variance in a firm's financial results. Other studies have estimated the effect of executive leaders to be as high as 20% to 45%, depending on the measure of organizational performance (Day & Lord, 1988; Thomas, 1988). To put these figures in perspective, the industry in which a firm competes accounts for about 19% of variation in financial performance (McGahan & Porter, 1997).

Two economists recently demonstrated the strong effect leaders have on organizational performance (Bloom & Van Reenen, 2006). They evaluated the management practices in more than 700 manufacturing firms in the United States, Great Britain, France, and Germany in terms of four categories: operations (e.g., process improvements, internal communication), targets (goals, rigor and transparency of setting goals), monitoring (tracking and following up on individual performance), and incentives (links between pay and performance). They assessed company performance using a broad range of metrics (e.g., firm-level productivity, profitability, sales growth, survival rates). Country and industry effects accounted for about half of the variance in company performance, but the remaining variance was a

function of the four categories of management practices. The degree to which these management practices were utilized depended on the firm's senior leaders, but the quality of management within the organization mattered more than the top executives by themselves. The large number of firms that were poorly managed produced the weakest results, reminding us again that good leaders enhance firm performance and bad leaders degrade it.

Although organizational effectiveness depends on more than leadership, the data clearly show that leaders have a substantial influence on it. Given *that* leaders affect organizational performance, the next question concerns *how* they do so.

How Leaders Affect Organizational Effectiveness

Leaders do not achieve results themselves. In response to the claim that CEO Louis Gerstner added $40 billion to IBM's stock market value in the late 1990s, some observers asked, "Did he really do this all by himself?" (Mintzberg, Simons, & Basu, 2002, p. 71). The answer is "no"; leaders influence organizational outcomes through other people (R. Hogan & Kaiser, 2005; Hollander, 1992; Lord & Brown, 2004).

Organizations are complex systems in which leadership is only one of several significant influences (Campbell et al., 1970; Jaques & Clement, 1991; Katz & Kahn, 1978; Zaccaro & Klimoski, 2001). Leaders do not directly control results because unpredictable dynamics can determine outcomes in complex systems (Marion & Uhl-Bien, 2001), and external forces sometimes overwhelm intentions and effort. Luck also plays a role. Nonetheless, leaders can create conditions that are more or less conducive to team effectiveness (Hackman, 2002; Hackman & Walton, 1986). Schneider (1998) described this as providing a *context for performance*—the circumstances that influence the ability of employees to contribute to organizational goals. In this view, the links between leadership and organizational outcomes are complicated but real. The complexity arises because the links are mediated by other aspects of the system—the performance of *subordinates/followers*,[4] the *teams* they compose, and *the organization* in which they are embedded (R. Hogan & Kaiser, 2005; Kaiser & Hogan, 2007).

Individual followers. The subject of how leaders use rewards and punishment to motivate followers has been studied in detail (see Bass, 1990; Yukl, 1989). This subject is called transactional leadership because it concerns the exchange of rewards for effort (Bass, 1985; Burns, 1978). A large body of research on leader–member exchange theory shows that the quality of the social exchange relationship has a profound impact on followers (Gerstner & Day, 1997; Graen & Uhl-Bien, 1995). In particular, followers' attitudes and performance are a function of trust in the leader and perceptions of the leader's support, consideration, and inclusiveness (Dirks & Ferrin, 2002; Gerstner & Day, 1997; Judge, Piccolo, & Ilies, 2004; Likert, 1967). Leaders who are unjust, disrespectful, inconsiderate, noninclusive, and, in the extreme, hostile and abusive (Tepper, 2000) alienate and demoralize followers;

conversely, leaders who are fair, respectful, considerate, and inclusive favorably impact attitudes, motivation, and employee involvement. In turn, attitudes, motivation, and involvement are positively related to financial, productivity, customer, and human capital measures of business-unit performance (Harter, Schmidt, & Hayes, 2002).

The concept of *transformational* leadership describes how leaders persuade followers to set aside selfish pursuits and work toward a collective purpose (Bass, 1985; Burns, 1978). Through a combination of vision, appealing group goals, high standards, intellectual stimulation, role modeling, and relationships, transformational leaders are believed to inspire and enhance the performance of their followers (Bass, 1985; Podsakoff, MacKenzie, Moorman, & Fetter, 1990). Many believe that transformational leadership is superior to its transactional counterpart, but a recent meta-analysis suggests that the difference in their overall effects is small (Judge & Piccolo, 2004). However, the two forms of leadership are complementary (Seltzer & Bass, 1990), and the success of transformational leadership depends on whether followers trust the leader (Podsakoff et al., 1990).

Research on how leaders affect followers' self-concepts indicates that transformational leadership works by influencing followers to identify with a collective enterprise and to internalize group aspirations (Lord & Brown, 2004; Shamir, House, & Arthur, 1993; van Knippenberg, van Knippenberg, De Cremer, & Hogg, 2004). Transactional leadership appeals to followers' self-interest, but transformational leadership changes the way followers see themselves—from isolated individuals to members of a larger group. Transformational leaders do this by modeling collective commitment (e.g., through self-sacrifice and the use of "we" instead of "I"), emphasizing the similarity of group members, and reinforcing collective goals, shared values, and common interests (Shamir et al., 1993; van Knippenberg, et al., 2004). When followers see themselves as members of a collective, they tend to endorse group values and goals, and this enhances their motivation to contribute to the greater good (Lord & Brown, 2004).

Teams. Leaders also influence performance at the team level of analysis. The functional perspective regards leadership as social problem solving in which leaders do whatever needs to be done for the group to succeed (Fleishman et al., 1991; Hackman & Walton, 1986; Lord, 1977; McGrath, 1962). Thus, leaders are responsible for identifying potential obstacles between a team and its goals, discovering solutions to those obstacles, and implementing a preferred course of action (Kozlowski, Gully, Salas, & Cannon-Bowers, 1996; Zaccaro et al., 2001).

The functional approach is an extension of early group performance research (Bales, 1950), and it considers two classes of problems—group maintenance and goal accomplishment. *Group maintenance* refers to the degree of harmony, cohesion, and teamwork, and the associated leadership activities include resolving conflict, building trust and

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[4] For the remainder of the article, we refer to subordinates of leaders as *followers*, in keeping with the psychological literature.

cooperation, and attending to the socioemotional needs of team members (Lord, 1977; Zaccaro et al., 2001). Leaders also keep teams together by ensuring clear channels of communication, clarifying misunderstandings, and facilitating group interaction and discussion. Hackman (2002) described these as the enabling conditions that are a prerequisite for effective task performance; meta-analytic evidence supports positive relationships between enabling leader behaviors, group maintenance, and group results (e.g., Burke et al, 2006; Mullen & Copper, 1994).

Several leader behaviors are related to goal accomplishment (Burke et al., 2006). These include setting direction and defining clear and significant objectives (Hackman, 2002). Another instrumental leader behavior is boundary spanning—monitoring external events and interpreting their meaning and significance for the team's performance (Katz & Kahn, 1978; Kozlowski et al., 1996; Zaccaro et al., 2001). Leaders also facilitate goal accomplishment by specifying roles, clarifying performance expectations, and coordinating collective action (Burke et al., 2006; Fleishman et al., 1991; Kozlowski et al., 1996; Lord, 1977). Team efforts must be coordinated in stages—first deciding how to combine individual efforts, then coaching team members to interact in this configuration, and finally standardizing these interaction patterns (Kozlowski et al., 1996). However, it is sometimes necessary to change the way a team functions. Indeed, leadership differs from routine management in that leadership entails the initiation of change (Kotter, 1990). Some recent writers have even emphasized the leader's role in teaching teams to innovate and adapt on their own (Day, Gronn, & Salas, 2004; Hackman, 2002). Meta-analytic research has found a strong link between empowering leader behaviors and team learning outcomes and a moderate link with productivity (Burke et al., 2006).

Leaders also influence teams indirectly by the climate and culture they create.[5] Lewin (1951) defined *climate* as a person's affect-laden internal representation of the features of the environment that influence motivation and behavior. Leadership is a primary determinant of climate perceptions (Likert, 1967; Litwin & Stringer, 1968; McGregor, 1960), and the favorability of these perceptions is a function of the followers' relationship with the leader (Kozlowski & Doherty, 1989; Naumann & Bennett, 2000).

Leaders' behaviors and decisions are a symbolic expression of their values, motives, and worldview, and these are what create a climate (Likert, 1967; Litwin & Stringer, 1968; McGregor, 1960). Leaders communicate their preferences through role modeling, feedback, choices, and the use of rewards and sanctions (Dragoni, 2005; Schein, 1992). Through the social learning process, followers identify and interpret the values implicit in the behavior and decisions of their leader (Dragoni, 2005; Kozlowski & Doherty, 1989). Over time, a shared interpretation of work group experiences produces a *work group* climate (Reichers & Schneider, 1990). This climate may not reflect the perceptions of any single person, but it nonetheless acts as a cue for attaining rewards and governs group behavior and interaction patterns (Dragoni, 2005; Hackman, 2002). In this way, organizational processes, norms, and culture

come to resemble the values of the leader (Schneider, 1987).

Consider the recent events at Home Depot. CEO Robert Nardelli was removed after a 2006 shareholder revolt over his $250 million compensation package between 2001 and 2006, during which time Home Depot lost 12% of its stock value as that of Lowes, its main rival, nearly doubled. Nardelli has been described as tyrannical and insensitive; he eliminated jobs and cut pay, and the company lost veteran talent at all levels. His successor, Frank Blake, immediately exemplified a different set of values by reducing his own pay to 60% of Nardelli's salary, something that was widely noted in the company and the business press. Blake also ended Nardelli's policy of providing free gourmet lunches for senior executives. According to the *New York Times*, Blake told "senior executives to take the elevator down to the first floor and, on their own dime, eat with the company's rank and file in the cafeteria" ("Home Depot Gets a Fresh Coat," 2007, p. C1). The *Times* noted that this underscored Blake's message that "the era of the imperial chief executive at Home Depot is over" (p. C1).

Organizations. Leaders also exert influence through decisions about strategic goals, organizational structure, staffing, and policies (Finkelstein & Hambrick, 1996). Some theorists view these as situational factors that affect employee behavior rather than as formal features of the organization determined by leaders (e.g., Staw & Sutton, 1993). But these decisions are both (Kaiser & Hogan, 2007; Katz & Kahn, 1978): Leaders establish goals, strategies, and policies; in turn, the goals and policies guide and constrain follower and team performance.

Strategic leadership theory (SLT; Finkelstein & Hambrick, 1996; Hambrick & Mason, 1984) describes how leaders' decisions affect organizational performance. Moreover, SLT argues that these decisions are a function of a leader's personality, values, assumptions, and beliefs. Unfortunately, most of the research on SLT used demographic variables as proxies for psychological variables, which likely underestimated their relationships with important decisions (Cannella & Monroe, 1997). Nonetheless, the findings are suggestive and consistent with our major thesis.

For example, Bertrand and Schoar (2003) tracked a sample of senior managers as they moved across firms and industries, and found a main effect for individual executives on patterns of investment and financial decisions. There was also a main effect for executives on firm performance, indicating that some make better financial decisions than others regardless of organizational constraints and opportunities. Finally, decision-making styles were

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[5] The terms *climate* and *culture* are often used interchangeably. Climate originated in psychology, whereas the concept of culture was imported to organizational theory from anthropology. Most theorists regard the two as overlapping constructs: Culture concerns a more deep-seated system of values, assumptions, and meaning, whereas climate can be understood as the manifestation of culture in group perceptions and experiences (Reichers & Schneider, 1990). We use the term *climate* to focus our discussion on the impact that leaders have on followers and teams.

systematically related to demographic variables (e.g., older executives were more conservative, MBAs made more aggressive investments). Similarly, Prince (2005) suggested that managers have a "financial signature," that is, characteristic preferences for investing in new initiatives and controlling costs, preferences that are rooted in attitudes about money. In both cases, the researchers implicated psychological variables without using psychological theory or constructs.

Other studies link leader personality to business strategy. Leaders with an internal locus of control and high needs for achievement tend to invest in research and development and sponsor product and service innovations (Howell & Higgins, 1990; Miller, Kets de Vries, & Toulouse, 1982; Miller & Toulouse, 1986). Dark-side personality characteristics also influence decision making (Kaiser & Hogan, 2007). This is illustrated nicely by studies of executive "overconfidence" or arrogance. Using different methodologies, the studies showed that arrogant CEOs are more likely to make risky acquisitions and pay more for them than their market value (Hayward & Hambrick, 1997; Malmendier & Tate, 2005). Furthermore, these investments usually add value for the acquired firms but lose money for the acquiring firms. Chatterjee and Hambrick (in press) showed that arrogant CEOs also change strategy more frequently, make more and more expensive acquisitions, and produce less consistent results.

Mid-level managers and first-line supervisors also decide direction, goals, whom to put in which roles, and operations management (Zaccaro & Klimoski, 2001). However, their decisions tend to be less complex and ambiguous and take less time to unfold (Jaques & Clement, 1991). Because lower level managers face more constraints compared with senior managers, individual differences will be more apparent in decisions made at higher organizational levels (Hambrick & Finkelstein, 1987; Kaiser & Hogan, 2007). Senior managers, then, have a greater opportunity to influence organizational effectiveness, for better or worse (Finkelstein & Hambrick, 1996; Jaques & Clement, 1991; Kaiser & Hogan, 2007; Zaccaro & Klimoski, 2001).

Organizational Outcomes in Leadership Studies

Research on leadership and organizational effectiveness has largely addressed how leaders influence the context for performance—how they affect processes at the follower, team, and organizational levels of analysis (see Table 2). Less is known about how these effects translate into organizational results. There are several reasons for this.

For example, contemporary writing on organizational effectiveness treats the topic in vague terms. This is probably because the subject is complicated and there are no widely endorsed theoretical models of organizational effectiveness (Cameron & Whetten, 1983; Kirby, 2005). Although there are several alternative theories, they seem only to converge on the view that the ultimate goal of organizations is long-term adaptability and survival (Day, 2001; Quinn, 1988). Most models focus on the organiza-

tional processes needed for survival, but they either fail to operationally define the relevant outcomes or do so in a restrictive way (e.g., only with financial measures; Finkelstein & Hambrick, 1996).

Historically there have been few efforts to classify key variables associated with organizational effectiveness (Carlile & Christensen, 2005), but a few taxonomies of outcomes have been published in recent years (see Day, 2001). Perhaps the most widely used in business organizations is the *balanced scorecard* (Kaplan & Norton, 1996), which distinguishes among financial, productivity, customer, human resources, and innovation results. In order to make leadership research more relevant to real organizations, psychologists need to include these kinds of outcomes in empirical studies. We offer five suggestions for using measures of organizational effectiveness (see also Cameron & Whetten, 1983; Day, 2001; Day & Lord, 1988).

First, no single measure will be an adequate index of team or organizational effectiveness because success requires optimizing a number of outcomes simultaneously (Cameron & Whetten, 1983; Campbell et al., 1970; Kaplan & Norton, 1996; Quinn, 1988). For example, customer service and human resource–based outcomes are not reflected directly in the bottom line. Nonetheless, if an organization achieves financial results while alienating customers and demoralizing employees, it will eventually suffer a reversal of fortune.

Second, many group and organizational performance measures reflect an internal perspective and overlook the fact that companies compete against one another. Consider the *Harbour Report*, which tracks productivity in the automobile industry. In 2004, it reported that General Motors reduced the time to produce a vehicle in its North American plants to 34 hours. However, the same report indicated that Toyota in North America needed only 28 hours to produce a vehicle ("General Motors: The Lost Years," 2005). It is essential to compare within-organization performance measures with meaningful external standards, such as the industry average or a competing organization's standing on comparable figures (e.g., Collins, 2001a). This helps explain why, despite productivity gains, General Motors continued to lay off employees, lose market share, and post declining profits through the early 2000s: Its rate of productivity improvement lagged behind that of its rivals. Measures of organizational outcomes, like raw scores on psychological tests, need normative data to be interpreted.

Third, outcome criteria should be measured at a level appropriate to the leader in question. Typically, this will concern the results achieved by the team or organizational unit for which the leader is directly responsible. For instance, turnover or error rates in a production crew might be used as effectiveness criteria for front-line supervisors, and company stock performance might be used for CEOs. It would be inappropriate to use stock performance to evaluate production supervisors—they are not responsible for company-wide performance.

Fourth, the time lapse between many leader actions and their consequences increases with higher levels in the hierarchy (Jaques & Clement, 1991; Zaccaro & Klimoski,

2001). For supervisors, this may mean a few weeks, but it may take several years to evaluate the impact of decisions made at the executive level. Day and Lord (1988) suggested a minimum time lag of two years to properly evaluate the impact of executive leadership. Models such as stratified systems theory (Jaques & Clement, 1991) can help determine the appropriate time horizon for measuring organizational outcomes associated with leadership.

Finally, objective outcome measures are difficult to obtain. This is surely one reason why leadership researchers often rely on approval ratings to represent effectiveness.[6] Although ratings are easier to collect than hard data, it would be more appropriate to collect ratings of team- or unit-level outcomes. For instance, Kirkman and Rosen (1999) developed a five-item team performance rating scale. Russell (2001) had bosses estimate the percentage of planned financial results actually achieved by the business unit led by each executive (e.g., if the target was $1 million in revenue and the result was $900,000, then the percentage of planned results would be 90%). This method has the advantage of also controlling for differences across business units in terms of size, resources, industry, competition, and other factors. Regardless of the measurement method, the unit of analysis for evaluating leadership effectiveness should be the performance of the group, team, or organization being led.

Conclusion

The main argument of this article can be summarized in terms of three points. First, leadership effectiveness should be defined and evaluated in terms of the performance of the group or team for which a leader is responsible. Second, much leadership research concerns how managers are perceived and therefore provides limited insight into leadership effectiveness. Third, a portion of the literature is informative about how leadership affects organizational performance—however, it focuses more on follower, team, and organizational processes than on organizational outcomes. We recommend a greater emphasis on results to enhance the real-world relevance of leadership research.

At a pragmatic level, we wish to emphasize two further points. The first concerns the fate of careers versus the fate of organizations. It is important to distinguish between the success of managers' careers—defined in terms of wealth, status, and reputation—and managers' effectiveness as leaders—defined in terms of the performance of the group or organization they lead. Everyday experience and the empirical literature suggest that these emphases are distinct, but the kinds of criteria used in leadership studies suggest that researchers often overlook the difference.

Our second pragmatic point is that much leadership research focuses on career success and how leaders are perceived. There has been relatively little research on the characteristics of leaders whose teams and organizations beat the competition (for an exception, see Collins, 2001a). It is interesting to speculate about why psychology has paid so much attention to how leaders are perceived. There are at least three reasons for this particular focus. First, orga-

nizational performance is difficult to conceptualize and measure. It is easier to collect evaluations of individual leaders. Second, Meindl et al. (1985) reminded us that there is a romantic attachment to, and a cult of personality about, leaders in Western thought. And finally, the focus on how individual leaders are perceived as opposed to how well their teams perform is consistent with the prevailing individualistic orientation of American psychology (cf. R. Hogan, 1975).

It is worth noting that our argument has implications for politics as well as business. Presidential campaigns tend to be decided on the basis of self-presentation skill and charm more than talent for leadership. Sometimes the public gets lucky—Ulysses Grant and Dwight Eisenhower, the two greatest leaders in American military history, were charismatically challenged but were steady, competent presidents (cf. Korda, 2007; Smith, 2001). On the other hand, John Kennedy and William Clinton, two of the most charismatic presidents ever, had less impressive records in office. Moreover, their personal needs for attention and admiration often caused distractions from more pressing needs facing the country.

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[6] We thank an anonymous reviewer for making this point.

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