

Leadership as It Relates to Organizational Behavior and Performance

Abstract This chapter explores the idea that leadership can have an impact on the organization's performance. Anecdotal evidence supports the common sense idea that leadership does influence organizational outcomes. This chapter reviews past research on the links between organizational performance and leadership. Additionally, some non-academic references about the impact of leadership on organizational performance are included.

Keywords Organizational behavior · Leadership and organizational behavior · Organizational culture

Organizational behavior is heavily influenced by leadership. At least, this is a logical assumption. Is it a valid assumption?

RELEVANT STUDIES AND DISCUSSION OF THE LINKS OF LEADERSHIP AND ORGANIZATIONAL SUCCESS

Jim Collins in *Good to Great: Why Some Companies Make the Leap...and Some Others Don't* found that leadership matters immensely in guiding organizational performance. But the most compelling example I have seen came from *Extreme Ownership* by Willink and Babin. This book, written by two Navy SEALs, discusses leadership lessons learned in

combat. They provide an example that took place during a SEAL training they were directing.

This part of SEAL training involved racing boats that were paddled by individual SEALs-in-training in difficult ocean conditions with one of the SEALs-in-training in each boat chosen as the leader of that boat team. Apparently one particular crew was winning every race, and one particular crew was losing every race. Boat Crew II worked very well as a team and was the consistent winner. Boat Crew VI was not exhibiting teamwork, and team members were blaming one another for their consistent losses.

After a period of time, the SEAL trainers swapped the leaders of Boat Crews II and VI, but otherwise kept the respective teams in place. The former leader of Boat Crew VI was ecstatic as he now had the “winning team,” in his mind. He apparently felt that Boat Crew VI consistently lost as a result of bad team members, and had nothing to do with leadership.

However, after each subsequent race, Boat Crew VI now consistently won with the new leader! It is true that Boat Crew II came in second on a consistent basis. But the only thing that changed was the leader of the two teams in each boat crew. Boat Crew VI went from last to first place with the change in leadership.

Willick and Babin conclude that there is no such thing as bad teams, only bad leaders. In this example, the only change was the change in leaders, and the turnaround in team performance was astounding. Clearly, this is an example of how the leader’s attitude and tone drives the performance of the team, or organization.

Academic research has also addressed the question of the link, if any, between leadership and organizational performance. Numerous studies have focused on how specific leadership paradigms can impact overall entity performance (Judge and Piccolo 2004; Keller 2006; Yukl 2002). See Jing and Avery (2008) for a summary of past research.

It is thought that leadership theories facilitate organizational performance in different ways so that, given a specific context, a particular set of leadership behaviors may be better suited than another (Avery 2004). Transactional leadership focuses on the linkage between employee performance and rewards and, as such, is thought to be more appropriate in organizations that are stable, but need to improve. On the other hand, transformational models of leadership may better facilitate improvement in organizations that require fundamental changes to become successful.

Most studies that explore the relationship between leadership and organizational change examine transformational leadership behaviors as a potential catalyst. To affect change in an organization so that performance improves, it is often assumed that such a change cannot occur without a change in organizational culture. Further, that change will not occur unless the organizational culture is adaptive. Kotter (1998) posits that organizational culture becomes adaptive only through leadership. Sarros et al. (2008) found that transformational leadership nurtures organizational culture through the leader's capacity to articulate a vision that inspires change.

Garcia-Morales et al. (2012) studied how transformational leadership influences organizational performance. They empirically show that transformational leadership behaviors have a positive influence on organizational behaviors by inspiring organizational learning and innovation. They note that the influence is on the organization as a collective whole and not through specific individual employee conduits.

A natural assumption is that if an organization can learn, it can improve. Choudhary et al. (2013) studied the effects of transformational leadership and servant leadership on organizational learning. They found that both leadership theories have common aspects to them, but that transformational leadership had a greater impact on organizational learning than servant leadership. Nevertheless, both theories positively impact organizational performance through organizational learning.

Other research has examined the notion that employee engagement can have a positive influence on organizational performance (Harter et al. 2002). Employee engagement refers to employees' willingness to invest, not only physically, but emotionally and cognitively in the organization (Kahn 1990). Barrick et al. (2015) suggest that employee engagement does not occur randomly and that it is only through leadership's deliberate strategies to create employee engagement that it occurs and results in organizational improvement.

Beyond collective employee engagement, it is logical to assume that leadership can also influence individual employees to perform better, which in turn creates improved organizational performance. Wang et al. (2005) empirically show that the social processes adopted between leader and individual followers can positively influence overall organizational performance through LMX-enhancing transformational leadership.

LMX and ethical leadership were studied by Walumbwa et al. (2011). They found a direct and positive relationship between ethical leadership

and organizational performance, and found that ethical leadership was mediated by LMX.

Both transformational and transactional leadership and their respective effects on organizational performance were studied on a sample of Russian companies. Elenkov (2002) found that transformational leadership behaviors predicted organizational performance. While transactional leadership behaviors also had an impact, the influence of transformational behaviors was stronger.

A sub-stream of research on leadership, motivating language theory (MLT), hypothesizes that the type of motivating language used by leaders can impact organizational performance by increasing employee job satisfaction. Empirical research has shown that there exists a link between MLT and employee job satisfaction (Sharbrough et al. 2006). They conclude MLT represents an important communication strategy to improve organizational commitment and performance.

Other MLT research hypothesizes that the leader's language has important implications for organizational performance. Murphy and Clark (2016) assert that if the leader can create a sense of shared purpose around the entity mission, performance will improve. They suggest that a shared sense of purpose can be created through careful crafting of messages that communicate meaningful purpose throughout the organization.

In summary, the logical assumption that leadership has a positive effect on organizational performance has been proven empirically through numerous academic studies. The empirical evidence points to transformational-type leadership behaviors as having the greatest influence.

CROSS-CULTURAL ISSUES

Recall from the previous chapter that several studies have shown that cultural values change from country to country (Hofstede 1980; Laurent 1983; Meyer 2014). Nevertheless, other studies are indicating that cultural convergence may be occurring as the distinctions between cultures diminish (Gordon 2010; Petersen et al. 2003).

It is noteworthy that some of the studies cited above represent empirical tests done with samples from non-US companies. Elenkov (2002) used a sample of Russian companies. Wang et al. (2005) and Walumba et al. (2011) utilized samples from China. Choudhary et al. (2013)

sampled participants from Pakistan. Garcia-Morales et al. (2012) sampled Spanish firms. And, finally, Sarros et al. (2008) formed their conclusions on the basis of a large sample of Australian managers.

The leadership behaviors that are discussed in Chap. 1, and used to test the link between leadership and organizational performance in this chapter, are considered western-based theories. Nevertheless, the reader can see the results from US samples and those from other countries essentially conclude the same—leadership matters with respect to organizational performance, regardless of culture.

This is not to say that cultural differences can be ignored. As discussed in Chap. 3, cultural differences, if properly understood, can be used to guide organizational behaviors so as to enhance the probability of organizational success.

GOVERNMENT

This chapter has shown that leadership can directly impact organizational behavior, which is reflective of organizational culture. We saw in Chap. 1 that the organizational culture of government agencies is often different from that of for-profit enterprises. But, it does not have to be that way. The inherent nature of government agencies, which operate without a profit motive and for the public good, creates a management ethos that is often distinct from for-profit enterprises. However, we reviewed research on what constitutes government organizations that perform well and discovered that the drivers of good performance in government agencies are essentially the same as in private enterprise (Rainey and Steinbauer 1999).

Two of the drivers of performance in government are leadership and organizational culture, which, as the chapter illustrates, are related. But we also noted in Chap. 1 that leadership is often more complicated in government agencies due to the entitled or protected nature of employment in these agencies.

Leadership may be further complicated, at least with respect to organizational performance in government agencies, due to the information asymmetry in government financial statements. Information asymmetry is a long-standing problem due to GAAP accounting standards that have been criticized in the academic literature for decades. Herzlinger (1996) succinctly describes the problem: Financial statements of government entities do not reveal much useful information and their operations are often shrouded in secrecy.

Without the ability to transparently view financial results, overall and by department, it is difficult to manage the organization effectively and efficiently. Moreover, a lack of transparency creates the potential for opportunistic and dysfunctional behavior that can adversely affect organizational culture. A lack of financial transparency and dysfunctional organizational behavior has a symbiotic relationship. Remove one and the other will most likely go away. It is the leader's obligation to create a performance culture, despite the inherent bureaucratic obstacles so prevalent in these agencies.

Furthermore, information asymmetry, or a lack of financial transparency, leads to agent/principal issues discussed in Chap. 1 in that the link between managers' efforts and organizational results can be obscured. In other words, it becomes difficult for leaders to properly evaluate subordinates, or to develop insight on how to improve organizational performance. Chapter 6 will provide suggestions on how to overcome this obstacle in government.

If organizational performance and culture depend upon effective leadership, and effective leadership is hampered by obstacles inherent to the organization, such as a government agency, performance becomes problematic. Furthermore, if the ability to evaluate organizational performance is hindered by information asymmetry, the challenges of leadership are further heightened.

Leadership in government can overcome these challenges by first creating financial transparency and acting upon results in a way that furthers mission. Mission-focused actions by the leader based on transparent results will create greater trust in the leader, as well as greater organizational trust. In turn, greater organizational trust will provide the leader with the ability to shape culture around a performance-driven attitude.



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