

# Chapter 12 - Leading People Within Organizations

## LEARNING OBJECTIVES

After reading this chapter, you should be able to do the following:

1. Define what leadership is and identify traits of effective leaders.
2. Describe behaviors that effective leaders demonstrate.
3. Specify the contexts in which various leadership styles are effective.
4. Explain the concepts of transformational, transactional, charismatic, servant, and authentic leadership.

Leadership may be defined as the act of influencing others to work toward a goal. Leaders exist at all levels of an organization. Some leaders hold a position of authority and may utilize the power that comes from their position, as well as their personal power to influence others. They are called formal leaders. In contrast, informal leaders are without a formal position of authority within the organization but demonstrate leadership by influencing others through personal forms of power. One caveat is important here: Leaders do not rely on the use of force to influence people. Instead, people willingly adopt the leader's goal as their own goal. If a person is relying on force and punishment, the person is a dictator, not a leader.

What makes leaders effective? What distinguishes people who are perceived as leaders from those who are not perceived as leaders? More importantly, how do we train future leaders and improve our own leadership ability? These are important questions that have attracted scholarly attention in the past several decades. In this chapter, we will review the history of leadership studies and summarize the major findings relating to these important questions. Around the world, we view leaders as at least partly responsible for their team or company's success and failure. Company CEOs are paid millions of dollars in salaries and stock options with the assumption that they hold their company's future in their hands. In politics, education, sports, profit and nonprofit sectors, the influence of leaders over the behaviors of individuals and organizations is rarely questioned. When people and organizations fail, managers and CEOs are often viewed as responsible. Some people criticize the assumption that leadership always matters and call this belief "the romance of leadership." However, research evidence pointing to the importance of leaders for organizational success is accumulating. Hogan, R., Curphy, G. J., & Hogan, J. (1994). What we know about leadership: Effectiveness and personality. *American Psychologist*, 49, 493–504.

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## 12.1 Taking on the Pepsi Challenge: The Case of Indra Nooyi

Indra Nooyi is among the top 100 most influential people according to Time magazine's 2008 list. She is also number 5 in Forbes's "Most Influential Women in the World" (2007), number 1 in Fortune's "50 Most Powerful Women" (2006), and number 22 in Fortune's "25 Most Powerful People in Business" (2007). The lists go on and on. To those familiar with her work and style, this should come as no surprise: Even before she became the CEO of PepsiCo Inc. (NYSE: PEP) in 2006, she was one of the most powerful executives at PepsiCo and one of the two candidates being groomed for the coveted CEO position. Born in Chennai, India, Nooyi graduated from Yale's School of Management and worked in companies such as the Boston Consulting Group Inc., Motorola Inc., and ABB Inc. She also led an all-girls rock band in high school, but that is a different story.

What makes her one of the top leaders in the business world today? To start with, she has a clear vision for PepsiCo, which seems to be the right vision for the company at this point in time. Her vision is framed under the term "performance with purpose," which is based on two key ideas: tackling the obesity epidemic by improving the nutritional status of PepsiCo products and making PepsiCo an environmentally sustainable company. She is an inspirational speaker and rallies people around her vision for the company. She has the track record to show that she means what she says. She was instrumental in PepsiCo's acquisition of the food conglomerate Quaker Oats Company and the juice maker Tropicana Products Inc., both of which have healthy product lines. She is bent on reducing PepsiCo's reliance on high-sugar, high-calorie beverages, and she made sure that PepsiCo removed trans fats from all its products before its competitors. On the environmental side, she is striving for a net zero impact on the environment. Among her priorities are plans to reduce the plastic used in beverage bottles and find biodegradable packaging solutions for PepsiCo products. Her vision is long term and could be risky for short-term earnings, but it is also timely and important.

Those who work with her feel challenged by her high-performance standards and expectation of excellence. She is not afraid to give people negative feedback—and with humor, too. She pushes people until they come up with a solution to a problem and does not take "I don't know" for an answer. For example, she insisted that her team find an alternative to the expensive palm oil and did not stop urging them forward until the alternative arrived: rice bran oil.

Nooyi is well liked and respected because she listens to those around her, even when they disagree with her. Her background cuts across national boundaries, which gives her a true appreciation for diversity, and she expects those around her to bring their values to work. In fact, when she graduated from college, she wore a sari to a job interview at Boston Consulting, where she got the job. She is an unusually collaborative person in the top suite of a Fortune 500 company, and she seeks help and information when she needs it. She has friendships with three ex-CEOs of PepsiCo who serve as her informal advisors, and when she was selected to the top position at PepsiCo, she made sure that her rival for the position got a pay raise and was given influence in the company so she did not lose him. She says that the best advice she received was from her father, who taught her to assume that people have

good intentions. Nooyi notes that expecting people to have good intentions helps her prevent misunderstandings and show empathy for them. It seems that she is a role model to other business leaders around the world, and PepsiCo is well positioned to tackle the challenges the future may bring.

Case written by [citation redacted per publisher request]. Based on information from Birger, J., Chandler, C., Frott, J., Gimbel, B., Gumbel, P., et al. (2008, May 12). The best advice I ever got. *Fortune*, 157(10), 70–80; Brady, D. (2007, June 11). Keeping cool in hot water. *BusinessWeek*. Retrieved April 30, 2010, from [http://www.businessweek.com/magazine/content/07\\_24/b4038067.htm](http://www.businessweek.com/magazine/content/07_24/b4038067.htm); Compton, J. (2007, October 15). Performance with purpose. *Beverage World*, 126(10), 32; McKay, B. (2008, May 6). Pepsi to cut plastic used in bottles. *Wall Street Journal*, Eastern edition, p. B2; Morris, B., & Neering, P. A. (2008, May 3). The Pepsi challenge: Can this snack and soda giant go healthy? CEO Indra Nooyi says yes but cola wars and corn prices will test her leadership. *Fortune*, 157(4), 54–66; Schultz, H. (2008, May 12). Indra Nooyi. *Time*, 171(19), 116–117; Seldman, M. (2008, June). Elevating aspirations at PepsiCo. *T+D*, 62(6), 36–38; The Pepsi challenge (2006, August 19). *Economist*. Retrieved April 30, 2010, from [http://www.economist.com/business-finance/displaystory.cfm?story\\_id=7803615](http://www.economist.com/business-finance/displaystory.cfm?story_id=7803615).

## QUESTIONS

1. Indra Nooyi is not a typical CEO. How does she differ from your idea of what a typical CEO is like? How do you think your current image of CEOs was created?
2. Indra Nooyi is touted as being “unusually collaborative” for someone in charge of a Fortune 500 company. Why do you think her level of collaboration is so unusual for top executives?
3. Do you think Nooyi’s story represents a transition of American companies to a different type of leader or simply a unique case?
4. Pepsi-Cola dates back to 1898 and officially became PepsiCo after merging with Frito-Lay in 1965. What are some challenges the CEO faces today that were not an issue at that time? What are some aspects that make the position easier in modern times?
5. If you were in Indra Nooyi’s shoes, what direction would you take the company, given the success you have had thus far? What are some challenges that could arise in the near future for PepsiCo?

## 12.2 Who Is a Leader? Trait Approaches to Leadership

### LEARNING OBJECTIVES

1. Learn the position of trait approaches in the history of leadership studies.
2. Explain the traits that are associated with leadership.
3. Discuss the limitations of trait approaches to leadership.

The earliest approach to the study of leadership sought to identify a set of traits that distinguished leaders from nonleaders. What were the personality characteristics and the physical and psychological attributes of people who are viewed as leaders? Because of the problems in measurement of personality traits at the time, different studies used different measures. By 1940, researchers concluded that the search for leadership-defining traits was futile. In recent years, though, after the advances in personality literature such as the development of the Big Five personality framework, researchers have had more success in identifying traits that predict leadership. House, R. J., & Aditya, R. N. (1997). The social scientific study of leadership: Quo Vadis? *Journal of Management*, 23, 409–473. Most importantly, charismatic leadership, which is among the contemporary approaches to leadership, may be viewed as an example of a trait approach.

The traits that show relatively strong relations with leadership are discussed below. Judge, T. A., Bono, J. E., Ilies, R., & Gerhardt, M. W. (2002). Personality and leadership: A qualitative and quantitative review. *Journal of Applied Psychology*, 87, 765–780.

### Intelligence

General mental ability, which psychologists refer to as “g” and which is often called “IQ” in everyday language, has been related to a person’s emerging as a leader within a group. Specifically, people who have high mental abilities are more likely to be viewed as leaders in their environment. House, R. J., & Aditya, R. N. (1997). The social scientific study of leadership: Quo Vadis? *Journal of Management*, 23, 409–473; Ilies, R., Gerhardt, M. W., & Huy, L. (2004). Individual differences in leadership emergence: Integrating meta-analytic findings and behavioral genetics estimates. *International Journal of Selection and Assessment*, 12, 207–219; Lord, R. G., De Vader, C. L., & Alliger, G. M. (1986). A meta-analysis of the relation between personality traits and leadership perceptions: An application of validity generalization procedures. *Journal of Applied Psychology*, 71, 402–410; Taggar, S., Hackett, R., & Saha, S. (1999). Leadership emergence in autonomous work teams: Antecedents and outcomes. *Personnel Psychology*, 52, 899–926. We should caution, though, that intelligence is a positive but modest predictor of leadership, and when actual intelligence is measured with paper-and-pencil tests, its relationship to leadership is a bit weaker compared to when intelligence is defined as the perceived intelligence of a leader. Judge, T. A., Colbert, A. E., & Ilies, R. (2004). Intelligence and leadership: A quantitative review and test of theoretical propositions. *Journal of Applied Psychology*, 89, 542–552. In addition to having a high IQ, effective leaders tend to have high emotional intelligence (EQ). People with high EQ demonstrate a high level of self-awareness, motivation, empathy, and social skills. The psychologist who

coined the term emotional intelligence, Daniel Goleman, believes that IQ is a threshold quality: It matters for entry- to high-level management jobs, but once you get there, it no longer helps leaders, because most leaders already have a high IQ. According to Goleman, what differentiates effective leaders from ineffective ones becomes their ability to control their own emotions and understand other people’s emotions, their internal motivation, and their social skills. Goleman, D. (January, 2004). What makes a leader? *Harvard Business Review*, 82(1), 82–91.

## Big 5 Personality Traits

Psychologists have proposed various systems for categorizing the characteristics that make up an individual’s unique personality; one of the most widely accepted is the “Big Five” model, which rates an individual according to Openness to experience, Conscientiousness, Extraversion, Agreeableness, and Neuroticism. Several of the Big Five personality traits have been related to leadership emergence (whether someone is viewed as a leader by others) and effectiveness. Judge, T. A., Bono, J. E., Ilies, R., & Gerhardt, M. W. (2002). Personality and leadership: A qualitative and quantitative review. *Journal of Applied Psychology*, 87, 765–780.

Table 12.1 Big Five Personality Traits

Trait	Description
Openness	Being curious, original, intellectual, creative, and open to new ideas
Conscientiousness	Being organized, systematic, punctual, achievement-oriented, and dependable
Extraversion	Being outgoing, talkative, sociable, and enjoying social situations
Agreeableness	Being affable, tolerant, sensitive, kind, and warm
Neuroticism	Being anxious, irritable, temperamental, and moody

For example, extraversion is related to leadership. Extraverts are sociable, assertive, and energetic people. They enjoy interacting with others in their environment and demonstrate self-confidence. Because they are both dominant and sociable in their environment, they emerge as leaders in a wide variety of situations. Out of all personality traits, extraversion has the strongest relationship with both leader emergence and leader effectiveness. This is not to say that all effective leaders are extraverts, but you are more likely to find extraverts in leadership positions. An example of an introverted leader is Jim Buckmaster, the CEO of Craigslist. He is known as an introvert, and he admits to not having meetings because he does not like them. Buckmaster, J. (2008, May). How does he manage? Classified website boss. *Management Today*, 15. Research shows that another personality trait related to leadership is conscientiousness. Conscientious people are organized, take initiative, and demonstrate persistence in their endeavors. Conscientious people are more likely to emerge as leaders and be effective in that role. Finally, people who have openness to experience—those who demonstrate originality, creativity, and are open to trying new things—tend to emerge as leaders and also be quite effective.

## Self-Esteem

Self-esteem is not one of the Big Five personality traits, but it is an important aspect of one's personality. The degree to which a person is at peace with oneself and has an overall positive assessment of one's self worth and capabilities seem to be relevant to whether someone is viewed as a leader. Leaders with high self-esteem support their subordinates more and, when punishment is administered, they punish more effectively. Atwater, L. E., Dionne, S. D., Camobreco, J. F., Avolio, B. J., & Lau, A. (1998). Individual attributes and leadership style: Predicting the use of punishment and its effects. *Journal of Organizational Behavior*, 19, 559–576; Niebuhr, R. E., & Davis, K. R. (1984). Self-esteem: Relationship with leader behavior perceptions as moderated by the duration of the superior-subordinate dyad association. *Personality and Social Psychology Bulletin*, 10, 51–59. It is possible that those with high self-esteem have greater levels of self-confidence and this affects their image in the eyes of their followers. Self-esteem may also explain the relationship between some physical attributes and leader emergence. For example, research shows a strong relationship between being tall and being viewed as a leader (as well as one's career success over life). It is proposed that self-esteem may be the key mechanism linking height to being viewed as a leader, because people who are taller are also found to have higher self-esteem and therefore may project greater levels of charisma as well as confidence to their followers. Judge, T. A., & Cable, D. M. (2004). The effect of physical height on workplace success and income: Preliminary test of a theoretical model. *Journal of Applied Psychology*, 89, 428–441.

## Integrity

Research also shows that people who are effective as leaders tend to have a moral compass and demonstrate honesty and integrity. Reave, L. (2005). Spiritual values and practices related to leadership effectiveness. *Leadership Quarterly*, 16, 655–687. Leaders whose integrity is questioned lose their trustworthiness, and they hurt their company's business along the way. For example, when it was revealed that Whole Foods Market CEO John Mackey was using a pseudonym to make negative comments online about the company's rival Wild Oats Markets Inc., his actions were heavily criticized, his leadership was questioned, and the company's reputation was affected. Farrell, G., & Davidson, P. (2007, July 13). Whole Foods' CEO was busy guy online. *USA Today*, Money section, p. 04B.

Figure 12.1 Key Traits Associated With Leadership

- Integrity
- Intelligence
- Extraversion
- Conscientious
- Open to Experience
- Self-esteem
- Integrity

Despite problems in trait approaches, these findings can still be useful to managers and companies. For example, knowing about leader traits helps organizations select the right people into positions of

responsibility. The key to benefiting from the findings of trait researchers is to be aware that not all traits are equally effective in predicting leadership potential across all circumstances. Some organizational situations allow leader traits to make a greater difference. House, R. J., & Aditya, R. N. (1997). The social scientific study of leadership: Quo Vadis? *Journal of Management*, 23, 409–473. For example, in small, entrepreneurial organizations where leaders have a lot of leeway to determine their own behavior, the type of traits leaders have may make a difference in leadership potential. In large, bureaucratic, and rule-bound organizations such as the government and the military, a leader's traits may have less to do with how the person behaves and whether the person is a successful leader. Judge, T. A., Bono, J. E., Ilies, R., & Gerhardt, M. W. (2002). Personality and leadership: A qualitative and quantitative review. *Journal of Applied Psychology*, 87, 765–780. Moreover, some traits become relevant in specific circumstances. For example, bravery is likely to be a key characteristic in military leaders, but not necessarily in business leaders. Scholars now conclude that instead of trying to identify a few traits that distinguish leaders from nonleaders, it is important to identify the conditions under which different traits affect a leader's performance, as well as whether a person emerges as a leader. Hackman, J. R., & Wageman, R. (2007). Asking the right questions about leadership: Discussion and conclusions. *American Psychologist*, 62, 43–47.



Condoleezza Rice had different responsibilities as the provost of Stanford University compared to her role as secretary of state for the United States. Do you think these differences affected her behavior as a leader? Source: [http://en.wikipedia.org/wiki/Image:Condoleezza\\_Rice\\_cropped.jpg](http://en.wikipedia.org/wiki/Image:Condoleezza_Rice_cropped.jpg) (public domain)

## KEY TAKEAWAY

Many studies searched for a limited set of personal attributes, or traits, which would make someone be viewed as a leader and be successful as a leader. Some traits that are consistently related to leadership include intelligence (both mental ability and emotional intelligence), personality (extraversion, conscientiousness, openness to experience, self-esteem), and integrity. The main limitation of the trait approach was that it ignored the situation in which leadership occurred. Therefore, it is more useful to specify the conditions under which different traits are needed.

## EXERCISES

1. Think of a leader you admire. What traits does this person have? Are they consistent with the traits discussed in this chapter? If not, why is this person effective despite the presence of different traits?
2. Can the findings of traits approaches be used to train potential leaders? Which traits seem easier to teach? Which are more stable?
3. How can organizations identify future leaders with a given set of traits? Which methods would be useful for this purpose?
4. What other traits can you think of that would be relevant to leadership?



## 12.3 What Do Leaders Do? Behavioral Approaches to Leadership

### LEARNING OBJECTIVES

1. Explain the behaviors that are associated with leadership.
2. Identify the three alternative decision-making styles leaders use and the conditions under which they are more effective.
3. Discuss the limitations of behavioral approaches to leadership.

### Leader Behaviors

When trait researchers became disillusioned in the 1940s, their attention turned to studying leader behaviors. What did effective leaders actually do? Which behaviors made them perceived as leaders? Which behaviors increased their success? To answer these questions, researchers at Ohio State University and the University of Michigan used many different techniques, such as observing leaders in laboratory settings as well as surveying them. This research stream led to the discovery of two broad categories of behaviors: task-oriented behaviors (sometimes called initiating structure) and people-oriented behaviors (also called consideration). Task-oriented leader behaviors involve structuring the roles of subordinates, providing them with instructions, and behaving in ways that will increase the performance of the group. Task-oriented behaviors are directives given to employees to get things done and to ensure that organizational goals are met. People-oriented leader behaviors include showing concern for employee feelings and treating employees with respect. People-oriented leaders genuinely care about the well-being of their employees, and they demonstrate their concern in their actions and decisions. At the time, researchers thought that these two categories of behaviors were the keys to the puzzle of leadership. See House, R. J., & Aditya, R. N. (1997). The social scientific study of leadership: Quo Vadis? *Journal of Management*, 23, 409–473. However, research did not support the argument that demonstrating both of these behaviors would necessarily make leaders effective. Nystrom, P. C. (1978). Managers and the hi-hi leader myth. *Academy of Management Journal*, 21, 325–331.

When we look at the overall findings regarding these leader behaviors, it seems that both types of behaviors, in the aggregate, are beneficial to organizations, but for different purposes. For example, when leaders demonstrate people-oriented behaviors, employees tend to be more satisfied and react more positively. However, when leaders are task oriented, productivity tends to be a bit higher. Judge, T. A., Piccolo, R. F., & Ilies, R. (2004). The forgotten ones? The validity of consideration and initiating structure in leadership research. *Journal of Applied Psychology*, 89, 36–51. Moreover, the situation in which these behaviors are demonstrated seems to matter. In small companies, task-oriented behaviors were found to be more effective than in large companies. Miles, R. H., & Petty, M. M. (1977). Leader effectiveness in small bureaucracies. *Academy of Management Journal*, 20, 238–250. There is also some evidence that very high levels of leader task-oriented behaviors may cause burnout with employees. Seltzer, J., & Numerof, R. E. (1988). Supervisory leadership and subordinate burnout. *Academy of Management Journal*, 31, 439–446.

## Leader Decision Making

Another question behavioral researchers focused on involved how leaders actually make decisions and the influence of decision-making styles on leader effectiveness and employee reactions. Three types of decision-making styles were studied. In authoritarian decision making, leaders make the decision alone without necessarily involving employees in the decision-making process. When leaders use democratic decision making, employees participate in the making of the decision. Finally, leaders using laissez-faire decision making leave employees alone to make the decision. The leader provides minimum guidance and involvement in the decision.

As with other lines of research on leadership, research did not identify one decision-making style as the best. It seems that the effectiveness of the style the leader is using depends on the circumstances. A review of the literature shows that when leaders use more democratic or participative decision-making styles, employees tend to be more satisfied; however, the effects on decision quality or employee productivity are weaker. Moreover, instead of expecting to be involved in every single decision, employees seem to care more about the overall participativeness of the organizational climate. Miller, K. I., & Monge, P. R. (1986). Participation, satisfaction, and productivity: A meta-analytic review. *Academy of Management Journal*, 29, 727–753. Different types of employees may also expect different levels of involvement. In a research organization, scientists viewed democratic leadership most favorably and authoritarian leadership least favorably, Baumgartel, H. (1957). Leadership style as a variable in research administration. *Administrative Science Quarterly*, 2, 344–360. but employees working in large groups where opportunities for member interaction was limited preferred authoritarian leader decision making. Vroom, V. H., & Mann, F. C. (1960). Leader authoritarianism and employee attitudes. *Personnel Psychology*, 13, 125–140. Finally, the effectiveness of each style seems to depend on who is using it. There are examples of effective leaders using both authoritarian and democratic styles. At Hyundai Motor America, high-level managers use authoritarian decision-making styles, and the company is performing very well. Deutschman, A. (2004, September). Googling for courage. *Fast Company*, 86, 58–59; Welch, D., Kiley, D., Ihlwan, M. (2008, March 17). My way or the highway at Hyundai. *Business Week*, 4075, 48–51.

The track record of the laissez-faire decision-making style is more problematic. Research shows that this style is negatively related to employee satisfaction with leaders and leader effectiveness. Judge, T. A., & Piccolo, R. F. (2004). Transformational and transactional leadership: A meta-analytic test of their relative validity. *Journal of Applied Psychology*, 89, 755–768. Laissez-faire leaders create high levels of ambiguity about job expectations on the part of employees, and employees also engage in higher levels of conflict when leaders are using the laissez-faire style. Skogstad, A., Einarsen, S., Torsheim, T., Aasland, M. S., & Hetland, H. (2007). The destructiveness of laissez-faire leadership behavior. *Journal of Occupational Health Psychology*, 12, 80–92.

## **Leadership Assumptions about Human Nature**

Why do some managers believe that the only way to manage employees is to force and coerce them to work while others adopt a more humane approach? Douglas McGregor, an MIT Sloan School of Management professor, believed that a manager's actions toward employees were dictated by having one of two basic sets of assumptions about employee attitudes. His two contrasting categories, outlined in his 1960 book, *The Human Side of Enterprise*, are known as Theory X and Theory Y.

According to McGregor, some managers subscribe to Theory X. The main assumptions of Theory X managers are that employees are lazy, do not enjoy working, and will avoid expending energy on work whenever possible. For a manager, this theory suggests employees need to be forced to work through any number of control mechanisms ranging from threats to actual punishments. Because of the assumptions they make about human nature, Theory X managers end up establishing rigid work environments. Theory X also assumes employees completely lack ambition. As a result, managers must take full responsibility for their subordinates' actions, as these employees will never take initiative outside of regular job duties to accomplish tasks.

In contrast, Theory Y paints a much more positive view of employees' attitudes and behaviors. Under Theory Y, employees are not lazy, can enjoy work, and will put effort into furthering organizational goals. Because these managers can assume that employees will act in the best interests of the organization given the chance, Theory Y managers allow employees autonomy and help them become committed to particular goals. They tend to adopt a more supportive role, often focusing on maintaining a work environment in which employees can be innovative and prosperous within their roles.

One way of improving our leadership style would be to become conscious about our theories of human nature, and question the validity of our implicit theories.

Source: McGregor, D. (1960). *Human side of enterprise*. New York: McGraw Hill.

## **Limitations of Behavioral Approaches**

Behavioral approaches, similar to trait approaches, fell out of favor because they neglected the environment in which behaviors are demonstrated. The hope of the researchers was that the identified behaviors would predict leadership under all circumstances, but it may be unrealistic to expect that a given set of behaviors would work under all circumstances. What makes a high school principal effective on the job may be very different from what makes a military leader effective, which would be different from behaviors creating success in small or large business enterprises. It turns out that specifying the conditions under which these behaviors are more effective may be a better approach.

### **KEY TAKEAWAY**

When researchers failed to identify a set of traits that would distinguish effective from ineffective leaders, research attention turned to the study of leader behaviors. Leaders may demonstrate task-oriented and people-oriented behaviors. Both seem to be related to important outcomes, with task-

oriented behaviors more strongly relating to leader effectiveness and people-oriented behaviors leading to employee satisfaction. Leaders can also make decisions using authoritarian, democratic, or laissez-faire styles. While laissez-faire has certain downsides, there is no best style, and the effectiveness of each style seems to vary across situations. Because of the inconsistency of results, researchers realized the importance of the context in which leadership occurs, which paved the way to contingency theories of leadership.

## **EXERCISES**

1. Give an example of a leader you admire whose behavior is primarily task oriented, and one whose behavior is primarily people oriented.
2. What are the limitations of authoritarian decision making? Under which conditions do you think authoritarian style would be more effective?
3. What are the limitations of democratic decision making? Under which conditions do you think democratic style would be more effective?
4. What are the limitations of laissez-faire decision making? Under which conditions do you think laissez-faire style would be more effective?
5. Examine your own leadership style. Which behaviors are you more likely to demonstrate? Which decision-making style are you more likely to use?

## 12.4 What Is the Role of the Context? Contingency Approaches to Leadership

### LEARNING OBJECTIVES

1. Learn about the major situational conditions that determine the effectiveness of different leadership styles.
2. Identify the conditions under which highly task-oriented and highly people-oriented leaders can be successful based on Fiedler's contingency theory.
3. Describe the Path-Goal theory of leadership.
4. Describe a method by which leaders can decide how democratic or authoritarian their decision

What is the best leadership style? By now, you must have realized that this may not be the right question to ask. Instead, a better question might be: Under which conditions are certain leadership styles more effective? After the disappointing results of trait and behavioral approaches, several scholars developed leadership theories that specifically incorporated the role of the environment. Specifically, researchers started following a contingency approach to leadership—rather than trying to identify traits or behaviors that would be effective under all conditions, the attention moved toward specifying the situations under which different styles would be effective.

### Fiedler's Contingency Theory

The earliest and one of the most influential contingency theories was developed by Frederick Fiedler. Fiedler, F. (1967). *A theory of leadership effectiveness*. New York: McGraw-Hill; Fiedler, F. E. (1964). A contingency model of leader effectiveness. In L. Berkowitz (Ed.), *Advances in experimental social psychology*, vol. 1 (pp. 149–190). New York: Academic Press. According to the theory, a leader's style is measured by a scale called Least Preferred Coworker scale (LPC). People who are filling out this survey are asked to think of a person who is their least preferred coworker. Then, they rate this person in terms of how friendly, nice, and cooperative this person is. Imagine someone you did not enjoy working with. Can you describe this person in positive terms? In other words, if you can say that the person you hated working with was still a nice person, you would have a high LPC score. This means that you have a people-oriented personality, and you can separate your liking of a person from your ability to work with that person. On the other hand, if you think that the person you hated working with was also someone you did not like on a personal level, you would have a low LPC score. To you, being unable to work with someone would mean that you also dislike that person. In other words, you are a task-oriented person.

According to Fiedler's theory, different people can be effective in different situations. The LPC score is akin to a personality trait and is not likely to change. Instead, placing the right people in the right situation or changing the situation to suit an individual is important to increase a leader's effectiveness. The theory predicts that in "favorable" and "unfavorable" situations, a low LPC leader—one who has feelings of dislike for coworkers who are difficult to work with—would be successful. When situational favorableness is medium, a high LPC leader—one who is able to personally like coworkers who are difficult to work with—is more likely to succeed.

How does Fiedler determine whether a situation is “favorable,” “medium,” or “unfavorable”? There are three conditions creating situational favorableness: leader-subordinate relations, position power, and task structure. If the leader has a good relationship with most people and has high position power, and the task at hand is structured, the situation is very favorable. When the leader has low-quality relations with employees and has low position power, and the task at hand it relatively unstructured, the situation is very unfavorable.

Figure 12.2 Situational Favorableness

Situational favorableness	Leader-subordinate relations	Position Power	Task structure	Best Style
Favorable	Good	High	High	Low LPC Leader
	Good	High	Low	
	Good	Low	High	
Medium	Good	Low	Low	High LPC Leader
	Poor	High	High	
	Poor	High	Low	
	Poor	Low	High	
Unfavorable	Poor	Low	Low	Low LPC leader

Sources: Based on information in Fiedler, F. E. (1967). *A theory of leadership effectiveness*. New York: McGraw-Hill; Fiedler, F. E. (1964). A contingency model of leader effectiveness. In L. Berkowitz (Ed.), *Advances in experimental social psychology*, vol. 1 (pp. 149–190). New York: Academic Press.

Research partially supports the predictions of Fiedler’s contingency theory. Peters, L. H., Hartke, D. D., & Pohlmann, J. T. (1985). Fiedler’s contingency theory of leadership: An application of the meta-analysis procedures of Schmidt and Hunter. *Psychological Bulletin*, 97, 274–285; Strube, M. J., & Garcia, J. E. (1981). A meta-analytic investigation of Fiedler’s contingency model of leadership effectiveness. *Psychological Bulletin*, 90, 307–321; Vecchio, R. P. (1983). Assessing the validity of Fiedler’s contingency model of leadership effectiveness: A closer look at Strube and Garcia. *Psychological Bulletin*, 93, 404–408. Specifically, there is more support for the theory’s predictions about when low LPC leadership should be used, but the part about when high LPC leadership would be more effective received less support. Even though the theory was not supported in its entirety, it is a useful framework to think about when task- versus people-oriented leadership may be more effective. Moreover, the theory is important because of its explicit recognition of the importance of the context of leadership.

## Situational Leadership

Another contingency approach to leadership is Kenneth Blanchard and Paul Hersey’s Situational Leadership Theory (SLT) which argues that leaders must use different leadership styles depending on their followers’ development level. Hersey, P.H., Blanchard, K.H., ' Johnson, D.E. (2007). *Management of Organizational Behavior: Leadership human resources*. Upper Saddle River, NJ: Prentice Hall. According to this model, employee readiness (defined as a combination of their competence and commitment levels) is the key factor determining the proper leadership style. This approach has been highly popular

with 14 million managers across 42 countries undergoing SLT training and 70% of Fortune 500 companies employing its use.

<http://www.situational.com/Views/SituationalLeadership/RightHereRightNow.aspx>

The model summarizes the level of directive and supportive behaviors that leaders may exhibit. The model argues that to be effective, leaders must use the right style of behaviors at the right time in each employee’s development. It is recognized that followers are key to a leader’s success. Employees who are at the earliest stages of developing are seen as being highly committed but with low competence for the tasks. Thus, leaders should be highly directive and less supportive. As the employee becomes more competent, the leader should engage in more coaching behaviors. Supportive behaviors are recommended once the employee is at moderate to high levels of competence. And finally, delegating is the recommended approach for leaders dealing with employees who are both highly committed and highly competent. While the SLT is popular with managers, relatively easy to understand and use, and has endured for decades, research has been mixed in its support of the basic assumptions of the model. Blank, W., Green, S.G., ' Weitzel, J.R. (1990). A test of the situational leadership theory. *Personnel Psychology*, 43, 579–597; Graeff, C. L. (1983). The situational leadership theory: A critical review. *Academy of Management Review*, 8, 285–291; Fernandez, C.F., ' Vecchio, R.P. (2002). Situational leadership theory revisited: A test of an across-jobs perspective. *Leadership Quarterly*, 8, 67–84. Therefore, while it can be a useful way to think about matching behaviors to situations, overreliance on this model, at the exclusion of other models, is premature.

Table 12.2

<b>Follower Readiness Level</b>	Competence (Low)	Competence (Low)	Competence (Moderate to High)	Competence (High)
	Commitment (High)	Commitment (Low)	Commitment (Variable)	Commitment (High)
<b>Recommended Leader Style</b>	Directing Behavior	Coaching Behavior	Supporting Behavior	Delegating Behavior

**Situational Leadership Theory helps leaders match their style to follower readiness levels.**

### **Path-Goal Theory of Leadership**

Robert House’s path-goal theory of leadership is based on the expectancy theory of motivation. House, R. J. (1971). A path goal theory of leader effectiveness. *Administrative Science Quarterly*, 16(3), 321–338. The expectancy theory of motivation suggests that employees are motivated when they believe—or expect—that (a) their effort will lead to high performance, (b) their high performance will be

rewarded, and (c) the rewards they will receive are valuable to them. According to the path-goal theory of leadership, the leader's main job is to make sure that all three of these conditions exist. Thus, leaders will create satisfied and high-performing employees by making sure that employee effort leads to performance, and their performance is rewarded by desired rewards. The leader removes roadblocks along the way and creates an environment that subordinates find motivational.

The theory also makes specific predictions about what type of leader behavior will be effective under which circumstances. House, R. J. (1996). Path-goal theory of leadership: Lessons, legacy, and a reformulated theory. *Leadership Quarterly*, 7, 323–352; House, R. J., & Mitchell, T. R. (1974). Path-goal theory of leadership. *Journal of Contemporary Business*, 3, 81–97. The theory identifies four leadership styles. Each of these styles can be effective, depending on the characteristics of employees (such as their ability level, preferences, locus of control, and achievement motivation) and characteristics of the work environment (such as the level of role ambiguity, the degree of stress present in the environment, and the degree to which the tasks are unpleasant).

### **Four Leadership Styles**

Directive leaders provide specific directions to their employees. They lead employees by clarifying role expectations, setting schedules, and making sure that employees know what to do on a given work day. The theory predicts that the directive style will work well when employees are experiencing role ambiguity on the job. If people are unclear about how to go about doing their jobs, giving them specific directions will motivate them. On the other hand, if employees already have role clarity, and if they are performing boring, routine, and highly structured jobs, giving them direction does not help. In fact, it may hurt them by creating an even more restricting atmosphere. Directive leadership is also thought to be less effective when employees have high levels of ability. When managing professional employees with high levels of expertise and job-specific knowledge, telling them what to do may create a low-empowerment environment, which impairs motivation.

Supportive leaders provide emotional support to employees. They treat employees well, care about them on a personal level, and they are encouraging. Supportive leadership is predicted to be effective when employees are under a lot of stress or performing boring, repetitive jobs. When employees know exactly how to perform their jobs but their jobs are unpleasant, supportive leadership may be more effective.

Participative leaders make sure that employees are involved in the making of important decisions. Participative leadership may be more effective when employees have high levels of ability, and when the decisions to be made are personally relevant to them. For employees with a high internal locus of control (those who believe that they control their own destiny), participative leadership is a way of indirectly controlling organizational decisions, which is likely to be appreciated.

Achievement-oriented leaders set goals for employees and encourage them to reach their goals. Their style challenges employees and focuses their attention on work-related goals. This style is likely to be effective when employees have both high levels of ability and high levels of achievement motivation.



The path-goal theory of leadership has received partial but encouraging levels of support from researchers. Because the theory is highly complicated, it has not been fully and adequately tested. House, R. J., & Aditya, R. N. (1997). The social scientific study of leadership: Quo Vadis? *Journal of Management*, 23, 409–473; Stinson, J. E., & Johnson, T. W. (1975). The path-goal theory of leadership: A partial test and suggested refinement. *Academy of Management Journal*, 18, 242–252; Wofford, J. C., & Liska, L. Z. (1993). Path-goal theories of leadership: A meta-analysis. *Journal of Management*, 19, 857–876. The theory’s biggest contribution may be that it highlights the importance of a leader’s ability to change styles depending on the circumstances. Unlike Fiedler’s contingency theory, in which the leader’s style is assumed to be fixed and only the environment can be changed, House’s path-goal theory underlines the importance of varying one’s style depending on the situation.

Table 12.3 Predictions of the Path-Goal Theory Approach to Leadership

Situation	Appropriate Leadership Style
<ul style="list-style-type: none"> <li>• When employees have high role ambiguity</li> <li>• When employees have low abilities</li> <li>• When employees have external locus of control</li> </ul>	Directive
<ul style="list-style-type: none"> <li>• When tasks are boring and repetitive</li> <li>• When tasks are stressful</li> </ul>	Supportive
<ul style="list-style-type: none"> <li>• When employees have high abilities</li> <li>• When the decision is relevant to employees</li> <li>• When employees have high internal locus of control</li> </ul>	Participative
<ul style="list-style-type: none"> <li>• When employees have high abilities</li> <li>• When employees have high achievement motivation</li> </ul>	Achievement-oriented

*Sources: Based on information presented in House, R. J. (1996). Path-goal theory of leadership: Lessons, legacy, and a reformulated theory. Leadership Quarterly, 7, 323–352; House, R. J., & Mitchell, T. R. (1974). Path-goal theory of leadership. Journal of Contemporary Business, 3, 81–97.*

## Vroom and Yetton's Normative Decision Model

Yale School of Management Professor Victor Vroom and his colleagues Philip Yetton and Arthur Jago developed a decision-making tool to help leaders determine how much involvement they should seek when making decisions. Vroom, V. H. (2000). Leadership and the decision making process. *Organizational Dynamics*, 68, 82–94; Vroom, V. H., & Yetton, P. W. (1973). Leadership and decision-making. Pittsburg: University of Pittsburg Press; Jago, A., & Vroom, V. H. (1980). An evaluation of two alternatives to the Vroom/Yetton Normative Model. *Academy of Management Journal*, 23, 347–355; Vroom, V. H., & Jago, A. G. 1988. *The new leadership: managing participation in organizations*. Englewood Cliffs, NJ: Prentice Hall. The model starts by having leaders answer several key questions and working their way through a decision tree based on their responses. Let's try it. Imagine that you want to help your employees lower their stress so that you can minimize employee absenteeism. There are a number of approaches you could take to reduce employee stress, such as offering gym memberships, providing employee assistance programs, a nap room, and so forth.

Let's refer to the model and start with the first question. As you answer each question as high (H) or low (L), follow the corresponding path down the funnel.

1. Decision Significance. The decision has high significance, because the approach chosen needs to be effective at reducing employee stress for the insurance premiums to be lowered. In other words, there is a quality requirement to the decision. Follow the path through H.
2. Importance of Commitment. Does the leader need employee cooperation to implement the decision? In our example, the answer is high, because employees may simply ignore the resources if they do not like them. Follow the path through H.
3. Leader expertise. Does the leader have all the information needed to make a high quality decision? In our example, leader expertise is low. You do not have information regarding what your employees need or what kinds of stress reduction resources they would prefer. Follow the path through L.
4. Likelihood of commitment. If the leader makes the decision alone, what is the likelihood that the employees would accept it? Let's assume that the answer is low. Based on the leader's experience with this group, they would likely ignore the decision if the leader makes it alone. Follow the path from L.
5. Goal alignment. Are the employee goals aligned with organizational goals? In this instance, employee and organizational goals may be aligned because you both want to ensure that employees are healthier. So let's say the alignment is high, and follow H.
6. Group expertise. Does the group have expertise in this decision-making area? The group in question has little information about which alternatives are costlier, or more user friendly. We'll say group expertise is low. Follow the path from L.
7. Team competence. What is the ability of this particular team to solve the problem? Let's imagine that this is a new team that just got together and they have little demonstrated expertise to work together effectively. We will answer this as low or L.

Based on the answers to the questions we gave, the normative approach recommends consulting employees as a group. In other words, the leader may make the decision alone after gathering information from employees and is not advised to delegate the decision to the team or to make the decision alone.

Figure 12.11

P r o b l e m	Decision Significance	Importance of Commitment	Leader Expertise	Likelihood Of Commitment	Goal Alignment	Group Expertise	Team Competence	
	S t a t e m e n t	H	H	H	H	-	-	-
					H	H	H	Facilitate
						L	-	Consult (Group)
L					L	-		
				H	H	H	H	Delegate
					L	-	Consult (Individually)	
L				L	-			
					H	H	H	Facilitate
			L	L	-	Consult (Group)		
L		L	-					
		L	L	H	-	-	-	Decide
				H	H	H	Facilitate	
					L	-	Consult (Individually)	
L				L	-			
L		H	-	H	-	-	-	Decide
				L	-	-	H	Delegate
	L	-	-	-	-	-	L	Facilitate
				-	-	-	-	Decide

*Vroom and Yetton's leadership decision tree shows leaders which styles will be most effective in different situations. Adapted from Vroom and Yetton.*

## Decision-Making Styles

- **Decide.** The leader makes the decision alone using available information.
- **Consult Individually.** The leader obtains additional information from group members before making the decision alone.
- **Consult as a group.** The leader shares the problem with group members individually and makes the final decision alone.
- **Facilitate.** The leader shares information about the problem with group members collectively, and acts as a facilitator. The leader sets the parameters of the decision.
- **Delegate.** The leader lets the team make the decision.

Vroom and Yetton's normative model is somewhat complicated, but research results support the validity of the model. On average, leaders using the style recommended by the model tend to make more effective decisions compared to leaders using a style not recommended by the model. Vroom, V.

H., & Jago, G. (1978). On the validity of the Vroom Yetton model. *Journal of Applied Psychology*, 63, 151–162.

## KEY TAKEAWAY

The contingency approaches to leadership describe the role the situation would have in choosing the most effective leadership style. Fiedler's contingency theory argued that task-oriented leaders would be most effective when the situation was the most and the least favorable, whereas people-oriented leaders would be effective when situational favorableness was moderate. Situational Leadership Theory takes the maturity level of followers into account. House's path-goal theory states that the leader's job is to ensure that employees view their effort as leading to performance, and to increase the belief that performance would be rewarded. For this purpose, leaders would use directive-, supportive-, participative-, and achievement-oriented leadership styles depending on what employees needed to feel motivated. Vroom and Yetton's normative model is a guide leaders can use to decide how participative they should be given decision environment characteristics.

## EXERCISES

1. Do you believe that the least preferred coworker technique is a valid method of measuring someone's leadership style? Why or why not?
2. Do you believe that leaders can vary their style to demonstrate directive-, supportive-, achievement-, and participative-oriented styles with respect to different employees? Or does each leader tend to have a personal style that he or she regularly uses toward all employees?
3. What do you see as the limitations of the Vroom-Yetton leadership decision-making approach?
4. Which of the leadership theories covered in this section do you think are most useful and least useful to practicing managers? Why?

## 12.5 What's New? Contemporary Approaches to Leadership

### LEARNING OBJECTIVES

1. Learn about the difference between transformational and transactional leaders.
2. Find out about the relationship between charismatic leadership and how it relates to leader performance.
3. Learn how to be charismatic.
4. Describe how high-quality leader-subordinate relationships develop.
5. Define servant leadership and evaluate its potential for leadership effectiveness.

What are the leadership theories that have the greatest contributions to offer to today's business environment? In this section, we will review the most recent developments in the field of leadership.

### Transformational Leadership

Transformational leadership theory is a recent addition to the literature, but more research has been conducted on this theory than all the contingency theories combined. The theory distinguishes transformational and transactional leaders. Transformational leaders lead employees by aligning employee goals with the leader's goals. Thus, employees working for transformational leaders start focusing on the company's well-being rather than on what is best for them as individual employees. On the other hand, transactional leaders ensure that employees demonstrate the right behaviors and provide resources in exchange. Bass, B. M. (1985). *Leadership and performance beyond expectations*. New York: Free Press; Burns, J. M. (1978). *Leadership*. New York: Harper & Row.

Transformational leaders have four tools in their possession, which they use to influence employees and create commitment to the company goals. Bass, B. M. (1985). *Leadership and performance beyond expectations*. New York: Free Press; Burns, J. M. (1978). *Leadership*. New York: Harper & Row; Bycio, P., Hackett, R. D., & Allen, J. S. (1995). Further assessment of Bass's (1985) conceptualization of transactional and transformational leadership. *Journal of Applied Psychology*, 80, 468–478; Judge, T. A., & Piccolo, R. F. (2004). Transformational and transactional leadership: A meta-analytic test of their relative validity. *Journal of Applied Psychology*, 89, 755–768. First, transformational leaders are charismatic. Charisma refers to behaviors leaders demonstrate that create confidence in, commitment to, and admiration for the leader. Shamir, B., House, R. J., & Arthur, M. B. (1993). The motivational effects of charismatic leadership: A self-concept based theory. *Organization Science*, 4, 577–594. Charismatic individuals have a "magnetic" personality that is appealing to followers. Second, transformational leaders use inspirational motivation, or come up with a vision that is inspiring to others. Third is the use of intellectual stimulation, which means that they challenge organizational norms and status quo, and they encourage employees to think creatively and work harder. Finally, they use individualized consideration, which means that they show personal care and concern for the well-being of their followers. Examples of transformational leaders include Steve Jobs of Apple Inc.; Lee Iacocca, who transformed Chrysler Motors LLC in the 1980s; and Jack Welch, who was the CEO of

General Electric Company for 20 years. Each of these leaders is charismatic and is held responsible for the turnarounds of their companies.

While transformational leaders rely on their charisma, persuasiveness, and personal appeal to change and inspire their companies, transactional leaders use three different methods. Contingent rewards mean rewarding employees for their accomplishments. Active management by exception involves leaving employees to do their jobs without interference, but at the same time proactively predicting potential problems and preventing them from occurring. Passive management by exception is similar in that it involves leaving employees alone, but in this method the manager waits until something goes wrong before coming to the rescue.

Which leadership style do you think is more effective, transformational or transactional? Research shows that transformational leadership is a very powerful influence over leader effectiveness as well as employee satisfaction. Judge, T. A., & Piccolo, R. F. (2004). Transformational and transactional leadership: A meta-analytic test of their relative validity. *Journal of Applied Psychology*, 89, 755–768. In fact, transformational leaders increase the intrinsic motivation of their followers, build more effective relationships with employees, increase performance and creativity of their followers, increase team performance, and create higher levels of commitment to organizational change efforts. Herold, D. M., Fedor, D. B., Caldwell, S., & Liu, Y. (2008). The effects of transformational and change leadership on employees' commitment to a change: A multilevel study. *Journal of Applied Psychology*, 93, 346–357; Piccolo, R. F., & Colquitt, J. A. (2006). Transformational leadership and job behaviors: The mediating role of core job characteristics. *Academy of Management Journal*, 49, 327–340; Schaubroeck, J., Lam, S. K., & Cha, S. E. (2007). Embracing transformational leadership: Team values and the impact of leader behavior on team performance. *Journal of Applied Psychology*, 92, 1020–1030; Shin, S. J., & Zhou, J. (2003). Transformational leadership, conservation, and creativity: Evidence from Korea. *Academy of Management Journal*, 46, 703–714; Wang, H., Law, K. S., Hackett, R. D., Duanxu, W., & Zhen, X. C. (2005). Leader-member exchange as a mediator of the relationship between transformational leadership and followers' performance and organizational citizenship behavior. *Academy of Management Journal*, 48, 420–432. However, except for passive management by exception, the transactional leadership styles are also effective, and they also have positive influences over leader performance as well as employee attitudes. Judge, T. A., & Piccolo, R. F. (2004). Transformational and transactional leadership: A meta-analytic test of their relative validity. *Journal of Applied Psychology*, 89, 755–768. To maximize their effectiveness, leaders are encouraged to demonstrate both transformational and transactional styles. They should also monitor themselves to avoid demonstrating passive management by exception, or leaving employees to their own devices until problems arise.

Why is transformational leadership effective? The key factor may be trust. Trust is the belief that the leader will show integrity, fairness, and predictability in his or her dealings with others. Research shows that when leaders demonstrate transformational leadership behaviors, followers are more likely to trust the leader. The tendency to trust in transactional leaders is substantially lower. Because transformational leaders express greater levels of concern for people's well-being and appeal to people's values, followers are more likely to believe that the leader has a trustworthy character. Dirks, K.

T., & Ferrin, D. L. (2002). Trust in leadership: Meta-analytic findings and implications for research and practice. *Journal of Applied Psychology*, 87, 611–628.

Is transformational leadership genetic? Some people assume that charisma is something people are born with. You either have charisma, or you don't. However, research does not support this idea. We must acknowledge that there is a connection between some personality traits and charisma. Specifically, people who have a neurotic personality tend to demonstrate lower levels of charisma, and people who are extraverted tend to have higher levels of charisma. However, personality explains only around 10% of the variance in charisma. Bono, J. E., & Judge, T. A. (2004). Personality and transformational and transactional leadership: A meta-analysis. *Journal of Applied Psychology*, 89, 901–910. A large body of research has shown that it is possible to train people to increase their charisma and increase their transformational leadership. Barling, J., Weber, T., & Kelloway, E. K. (1996). Effects of transformational leadership training on attitudinal and financial outcomes: A field experiment. *Journal of Applied Psychology*, 81, 827–832; Dvir, T., Eden, D., Avolio, B. J., & Shamir, B. (2002). Impact of transformational leadership on follower development and performance: A field experiment. *Academy of Management Journal*, 45, 735–744; Frese, M., Beimeel, S., & Schoenborg, S. (2003). Action training for charismatic leadership: Two evaluations of studies of a commercial training module on inspirational communication of a vision. *Personnel Psychology*, 56, 671–697.

Even if charisma can be learned, a more fundamental question remains: Is it really needed? Charisma is only one element of transformational leadership, and leaders can be effective without charisma. In fact, charisma has a dark side. For every charismatic hero such as Lee Iacocca, Steve Jobs, and Virgin Atlantic Airways Ltd.'s Sir Richard Branson, there are charismatic personalities who harmed their organizations or nations, such as Adolph Hitler of Germany and Jeff Skilling of Enron Corporation. Leadership experts warn that when organizations are in a crisis, a board of directors or hiring manager may turn to heroes who they hope will save the organization, and sometimes hire people who have no particular qualifications other than being perceived as charismatic. Khurana, R. (2002, September). The curse of the superstar CEO. *Harvard Business Review*, 80(9), 60–66.

An interesting study shows that when companies have performed well, their CEOs are perceived as charismatic, but CEO charisma has no relation to the future performance of a company. Agle, B. R., Nagarajan, N. J., Sonnenfeld, J. A., & Srinivasan, D. (2006). Does CEO charisma matter? An empirical analysis of the relationships among organizational performance, environmental uncertainty, and top management team perceptions of CEO charisma. *Academy of Management Journal*, 49, 161–174. So, what we view as someone's charisma may be largely because of their association with a successful company, and the success of a company depends on a large set of factors, including industry effects and historical performance. While it is true that charismatic leaders may sometimes achieve great results, the search for charismatic leaders under all circumstances may be irrational.

## OB Toolbox: Be Charismatic!

- **Have a vision around which people can gather.** When framing requests or addressing others, instead of emphasizing short-term goals, stress the importance of the long-term vision. When giving a message, think about the overarching purpose. What is the ultimate goal? Why should people care? What are you trying to achieve?
- **Tie the vision to history.** In addition to stressing the ideal future, charismatic leaders also bring up the history and how the shared history ties to the future.
- **Watch your body language.** Charismatic leaders are energetic and passionate about their ideas. This involves truly believing in your own ideas. When talking to others, be confident, look them in the eye, and express your belief in your ideas.
- **Make sure that employees have confidence in themselves.** You can achieve this by showing that you believe in them and trust in their abilities. If they have real reason to doubt their abilities, make sure that you address the underlying issue, such as training and mentoring.
- **Challenge the status quo.** Charismatic leaders solve current problems by radically rethinking the way things are done and suggesting alternatives that are risky, novel, and unconventional.

Sources: Adapted from ideas in Frese, M., Beimeel, S., & Schoenborg, S. (2003). Action training for charismatic leadership: Two evaluations of studies of a commercial training module on inspirational communication of a vision. *Personnel Psychology*, 56, 671–697; Shamir, B., House, R. J., & Arthur, M. B. (1993). The motivational effects of charismatic leadership: A self-concept based theory. *Organization Science*, 4, 577–594.

## Leader-Member Exchange (LMX) Theory

Leader-member exchange (LMX) theory proposes that the type of relationship leaders have with their followers (members of the organization) is the key to understanding how leaders influence employees. Leaders form different types of relationships with their employees. In high-quality LMX relationships, the leader forms a trust-based relationship with the member. The leader and member like each other, help each other when needed, and respect each other. In these relationships, the leader and the member are each ready to go above and beyond their job descriptions to promote the other's ability to succeed. In contrast, in low-quality LMX relationships, the leader and the member have lower levels of trust, liking, and respect toward each other. These relationships do not have to involve actively disliking each other, but the leader and member do not go beyond their formal job descriptions in their exchanges. In other words, the member does his job, the leader provides rewards and punishments, and the relationship does not involve high levels of loyalty or obligation toward each other. Dansereau, F., Jr., Graen, G., & Haga, W. J. (1975). A vertical dyad linkage approach to leadership within formal organizations: A longitudinal investigation of the role making process. *Organizational Behavior & Human Performance*, 13(1), 46–78; Erdogan, B., & Liden, R. C. (2002). Social exchanges in the workplace: A review of recent developments and future research directions in leader-member exchange theory. In L. L. Neider & C. A. Schriesheim (Eds.), *Leadership* (pp. 65–114), Greenwich, CT: Information Age Press; Gerstner, C. R., & Day, D. V. (1997). Meta-analytic review of leader-member exchange theory: Correlates



and construct issues. *Journal of Applied Psychology*, 82, 827–844; Graen, G. B., & Uhl-Bien, M. (1995). Relationship-based approach to leadership: Development of leader-member exchange (LMX) theory over 25 years: Applying a multi-level multi-domain perspective. *Leadership Quarterly*, 6(2), 219–247; Liden, R. C., & Maslyn, J. M. (1998). Multidimensionality of leader-member exchange: An empirical assessment through scale development. *Journal of Management*, 24, 43–72.

Table 12. 4 Antecedents and Consequences of Leader Member Exchange

Antecedents		Consequences
<ul style="list-style-type: none"> <li>• Leader fairness</li> <li>• Leader delegation</li> <li>• Effort in building good relationship</li> <li>• Employee feedback seeking</li> <li>• Employee flattery of the leader</li> <li>• Personality similarity</li> <li>• Liking</li> </ul>	<p>Leader-Member Exchange</p>	<ul style="list-style-type: none"> <li>• Job satisfaction</li> <li>• Organization commitment</li> <li>• Job Performance</li> <li>• Citizenship behaviors</li> <li>• Lower turnover</li> <li>• Buffer against stressors</li> <li>• High performance ratings</li> <li>• Favorable interpretations of behavior</li> </ul>

If you have work experience, you may have witnessed the different types of relationships managers form with their employees. In fact, many leaders end up developing differentiated relationships with their followers. Within the same work group, they may have in-group members who are close to them, and out-group members who are more distant. If you have ever been in a high LMX relationship with your manager, you may attest to the advantages of the relationship. Research shows that high LMX members are more satisfied with their jobs, more committed to their companies, have higher levels of clarity about what is expected of them, and perform at a higher level. Gerstner, C. R., & Day, D. V. (1997). Meta-analytic review of leader-member exchange theory: Correlates and construct issues. *Journal of Applied Psychology*, 82, 827–844; Hui, C., Law, K. S., & Chen, Z. X. (1999). A structural equation model of the effects of negative affectivity, leader-member exchange, and perceived job mobility on in-role and extra-role performance: A Chinese case. *Organizational Behavior and Human Decision Processes*, 77, 3–21; Kraimer, M. L., Wayne, S. J., & Jaworski, R. A. (2001). Sources of support and expatriate performance: The mediating role of expatriate adjustment. *Personnel Psychology*, 54, 71–99; Liden, R. C., Wayne, S. J., & Sparrowe, R. T. (2000). An examination of the mediating role of psychological empowerment on the relations between the job, interpersonal relationships, and work outcomes. *Journal of Applied Psychology*, 85, 407–416; Settoon, R. P., Bennett, N., & Liden, R. C. (1996). Social exchange in organizations: Perceived organizational support, leader-member exchange, and employee reciprocity. *Journal of Applied Psychology*, 81, 219–227; Tierney, P., Farmer, S. M., & Graen, G. B. (1999). An examination of leadership and employee creativity: The relevance of traits and relationships. *Personnel Psychology*, 52, 591–620; Wayne, S. J., Shore, L. M., & Liden, R. C. (1997). Perceived organizational support and leader-member exchange: A social exchange perspective. *Academy of Management Journal*, 40, 82–111. Employees’ high levels of performance may not be a surprise, since they receive higher levels of resources and help from their managers as well as more information and guidance. If they have questions, these employees feel more comfortable seeking

feedback or information. Chen, Z., Lam, W., & Zhong, J. A. (2007). Leader-member exchange and member performance: A new look at individual-level negative feedback seeking behavior and team-level empowerment climate. *Journal of Applied Psychology, 92*, 202–212. Because of all the help, support, and guidance they receive, employees who have a good relationship with the manager are in a better position to perform well. Given all they receive, these employees are motivated to reciprocate to the manager, and therefore they demonstrate higher levels of citizenship behaviors such as helping the leader and coworkers. Ilies, R., Nahrgang, J. D., & Morgeson, F. P. (2007). Leader-member exchange and citizenship behaviors: A meta-analysis. *Journal of Applied Psychology, 92*, 269–277. Being in a high LMX relationship is also advantageous because a high-quality relationship is a buffer against many stressors, such as being a misfit in a company, having personality traits that do not match job demands, and having unmet expectations. Bauer, T. N., Erdogan, B., Liden, R. C., & Wayne, S. J. (2006). A longitudinal study of the moderating role of extraversion: Leader-member exchange, performance, and turnover during new executive development. *Journal of Applied Psychology, 91*, 298–310; Erdogan, B., Kraimer, M. L., & Liden, R. C. (2004). Work value congruence and intrinsic career success. *Personnel Psychology, 57*, 305–332; Major, D. A., Kozlowski, S. W., Chao, G. T., & Gardner, P. D. (1995). A longitudinal investigation of newcomer expectations, early socialization outcomes, and the moderating effects of role development factors. *Journal of Applied Psychology, 80*, 418–431. The list of the benefits high LMX employees receive is long, and it is not surprising that these employees are less likely to leave their jobs. Ferris, G. R. (1985). Role of leadership in the employee withdrawal process: A constructive replication. *Journal of Applied Psychology, 70*, 777–781; Graen, G. B., Liden, R. C., & Hoel, W. (1982). Role of leadership in the employee withdrawal process. *Journal of Applied Psychology, 67*, 868–872.

The problem, of course, is that not all employees have a high-quality relationship with their leader, and those who are in the leader's out-group may suffer as a result. But how do you develop a high-quality relationship with your leader? It seems that this depends on many factors. Managers can help develop such a meaningful and trust-based relationship by treating their employees in a fair and dignified manner. Masterson, S. S., Lewis, K., Goldman, B. M., & Taylor, M. S. (2000). Integrating justice and social exchange: The differing effects of fair procedures and treatment on work relationships. *Academy of Management Journal, 43*, 738–748. They can also test to see if the employee is trustworthy by delegating certain tasks when the employee first starts working with the manager. Bauer, T. N., & Green, S. G. (1996). Development of a leader-member exchange: A longitudinal test. *Academy of Management Journal, 39*, 1538–1567. Employees also have an active role in developing the relationship. Employees can put forth effort into developing a good relationship by seeking feedback to improve their performance, being open to learning new things on the job, and engaging in political behaviors such as the use of flattery. Colella, A., & Varma, A. (2001). The impact of subordinate disability on leader-member exchange relationships. *Academy of Management Journal, 44*, 304–315; Maslyn, J. M., & Uhl-Bien, M. (2001). Leader-member exchange and its dimensions: Effects of self-effort and other's effort on relationship quality. *Journal of Applied Psychology, 86*, 697–708; Janssen, O., & Van Yperen, N. W. (2004). Employees' goal orientations, the quality of leader-member exchange, and the outcomes of job performance and job satisfaction. *Academy of Management Journal, 47*, 368–384; Wing, L., Xu, H., & Snape, E. (2007). Feedback-seeking behavior and leader-member exchange: Do supervisor-attributed motives matter? *Academy of Management Journal, 50*, 348–363. Interestingly, high performance does not seem to be enough to develop a high-quality exchange. Instead, interpersonal factors such as the

similarity of personalities and a mutual liking and respect are more powerful influences over how the relationship develops. Engle, E. M., & Lord, R. G. (1997). Implicit theories, self-schemas, and leader-member exchange. *Academy of Management Journal*, 40, 988–1010; Liden, R. C., Wayne, S. J., & Stilwell, D. (1993). A longitudinal study on the early development of leader-member exchanges. *Journal of Applied Psychology*, 78, 662–674; Wayne, S. J., Shore, L. M., & Liden, R. C. (1997). Perceived organizational support and leader-member exchange: A social exchange perspective. *Academy of Management Journal*, 40, 82–111. Finally, the relationship develops differently in different types of companies, and corporate culture matters in how leaders develop these relationships. In performance-oriented cultures, the relevant factor seems to be how the leader distributes rewards, whereas in people-oriented cultures, the leader treating people with dignity is more important. Erdogan, B., Liden, R. C., & Kraimer, M. L. (2006). Justice and leader-member exchange: The moderating role of organizational culture. *Academy of Management Journal*, 49, 395–406.

**Self-Assessment: Rate Your LMX**

Answer the following questions using 1 = not at all, 2 = somewhat, 3 = fully agree.

1.	_____	I like my supervisor very much as a person.
2.	_____	My supervisor is the kind of person one would like to have as a friend.
3.	_____	My supervisor is a lot of fun to work with.
4.	_____	My supervisor defends my work actions to a superior, even without complete knowledge of the issue in question.
5.	_____	My supervisor would come to my defense if I were “attacked” by others.
6.	_____	My supervisor would defend me to others in the organization if I made an honest mistake.
7.	_____	I do work for my supervisor that goes beyond what is specified in my job description.
8.	_____	I am willing to apply extra efforts, beyond those normally required, to further the interests of my work group.
9.	_____	I do not mind working my hardest for my supervisor.
10.	_____	I am impressed with my supervisor’s knowledge of his or her job.
11.	_____	I respect my supervisor’s knowledge of and competence on the job.

12.	_____	I admire my supervisor's professional skills.
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**Scoring:**

Add your score for 1, 2, 3 = \_\_\_\_\_. This is your score on the *Liking* factor of LMX.

*A score of 3 to 4 indicates a low LMX in terms of liking. A score of 5 to 6 indicates an average LMX in terms of liking. A score of 7+ indicates a high LMX in terms of liking.*

Add your score for 4, 5, 6 = \_\_\_\_\_. This is your score on the *Loyalty* factor of LMX.

*A score of 3 to 4 indicates a low LMX in terms of loyalty. A score of 5 to 6 indicates an average LMX in terms of loyalty. A score of 7+ indicates a high LMX in terms of loyalty.*

Add your score for 7, 8, 9 = \_\_\_\_\_. This is your score on the *Contribution* factor of LMX.

*A score of 3 to 4 indicates a low LMX in terms of contribution. A score of 5 to 6 indicates an average LMX in terms of contribution. A score of 7+ indicates a high LMX in terms of contribution.*

Add your score for 10, 11, 12 = \_\_\_\_\_. This is your score on the *Professional Respect* factor of LMX.

*A score of 3 to 4 indicates a low LMX in terms of professional respect. A score of 5 to 6 indicates an average LMX in terms of professional respect. A score of 7+ indicates a high LMX in terms of professional respect.*

Source: Adapted from Liden, R. C., & Maslyn, J. M. (1998). Multidimensionality of leader-member exchange: An empirical assessment through scale development. *Journal of Management*, 24, 43–72. Used by permission of Sage Publications.

Should you worry if you do not have a high-quality relationship with your manager? One problem in a low-quality exchange is that employees may not have access to the positive work environment available to high LMX members. Secondly, low LMX employees may feel that their situation is unfair. Even when their objective performance does not warrant it, those who have a good relationship with the leader tend to have positive performance appraisals. Duarte, N. T., Goodson, J. R., & Klich, N. R. (1994). Effects of dyadic quality and duration on performance appraisal. *Academy of Management Journal*, 37, 499–521. Moreover, they are more likely to be given the benefit of the doubt. For example, when high LMX employees succeed, the manager is more likely to think that they succeeded because they put forth a lot of effort and had high abilities, whereas for low LMX members who perform objectively well, the manager is less likely to make the same attribution. Heneman, R. L., Greenberger, D. B., & Anonyuo, C. (1989). Attributions and exchanges: The effects of interpersonal factors on the diagnosis of employee performance. *Academy of Management Journal*, 32, 466–476. In other words, the leader may interpret the same situation differently, depending on which employee is involved, and may reward low LMX

employees less despite equivalent performance. In short, those with a low-quality relationship with their leader may experience a work environment that may not be supportive or fair.

Despite its negative consequences, we cannot say that all employees want to have a high-quality relationship with their leader. Some employees may genuinely dislike the leader and may not value the rewards in the leader's possession. If the leader is not well liked in the company and is known as abusive or unethical, being close to such a person may imply guilt by association. For employees who have no interest in advancing their careers in the current company (such as a student employee who is working in retail but has no interest in retail as a career), having a low-quality exchange may afford the opportunity to just do one's job without having to go above and beyond the job requirements. Finally, not all leaders are equally capable of influencing their employees by having a good relationship with them: It also depends on the power and influence of the leader in the company as a whole and how the leader is treated within the organization. Leaders who are more powerful will have more to share with their employees. Erdogan, B., & Enders, J. (2007). Support from the top: Supervisors' perceived organizational support as a moderator of leader-member exchange to satisfaction and performance relationships. *Journal of Applied Psychology, 92*, 321–330; Sparrowe, R. T., & Liden, R. C. (2005). Two routes to influence: Integrating leader-member exchange and social network perspectives. *Administrative Science Quarterly, 50*, 505–535; Tangirala, S., Green, S. G., & Ramanujam, R. (2007). In the shadow of the boss's boss: Effects of supervisors' upward exchange relationships on employees. *Journal of Applied Psychology, 92*, 309–320.

What LMX theory implies for leaders is that one way of influencing employees is through the types of relationships leaders form with their subordinates. These relationships develop naturally through the work-related and personal interactions between the manager and the employee. Because they occur naturally, some leaders may not be aware of the power that lies in them. These relationships have an important influence over employee attitudes and behaviors. In the worst case, they have the potential to create an environment characterized by favoritism and unfairness. Therefore, managers are advised to be aware of how they build these relationships: Put forth effort in cultivating these relationships consciously, be open to forming good relationships with people from all backgrounds regardless of characteristics such as sex, race, age, or disability status, and prevent these relationships from leading to an unfair work environment.

## **OB Toolbox: Ideas for Improving Your Relationship With Your Manager**

Having a good relationship with your manager may substantially increase your job satisfaction, improve your ability to communicate with your manager, and help you be successful in your job. Here are some tips to developing a high-quality exchange.

- **Create interaction opportunities with your manager.** One way of doing this would be seeking feedback from your manager with the intention of improving your performance. Be careful though: If the manager believes that you are seeking feedback for a different purpose, it will not help.

- **People are more attracted to those who are similar to them.** So find out where your similarities lie. What does your manager like that you also like? Do you have similar working styles? Do you have any mutual experiences? Bringing up your commonalities in conversations may help.
- **Utilize impression management tactics, but be tactful.** If there are work-related areas in which you can sincerely compliment your manager, do so. For example, if your manager made a decision that you agree with, you may share your support. Most people, including managers, appreciate positive feedback. However, flattering your manager in non-work-related areas (such as appearance) or using flattery in an insincere way (praising an action you do not agree with) will only backfire and cause you to be labeled as a flatterer.
- **Be a reliable employee.** Managers need people they can trust. By performing at a high level, demonstrating predictable and consistent behavior, and by volunteering for challenging assignments, you can prove your worth.
- **Be aware that relationships develop early** (as early as the first week of your working together). So be careful how you behave during the interview and your very first days. If you rub your manager the wrong way early on, it will be harder to recover the relationship.

Sources: Based on information presented in Colella, A., & Varma, A. (2001). The impact of subordinate disability on leader-member exchange relationships. *Academy of Management Journal*, 44, 304–315; Liden, R. C., Wayne, S. J., & Stilwell, D. (1993). A longitudinal study on the early development of leader-member exchanges. *Journal of Applied Psychology*, 78, 662–674; Maslyn, J. M., & Uhl-Bien, M. (2001). Leader-member exchange and its dimensions: Effects of self-effort and other's effort on relationship quality. *Journal of Applied Psychology*, 86, 697–708; Wing, L., Xu, H., & Snape, E. (2007). Feedback-seeking behavior and leader-member exchange: Do supervisor-attributed motives matter? *Academy of Management Journal*, 50, 348–363.

## Servant Leadership

The early 21st century has been marked by a series of highly publicized corporate ethics scandals: Between 2000 and 2003 we witnessed the scandals of Enron, WorldCom, Arthur Andersen LLP, Qwest Communications International Inc., and Global Crossing Ltd. As corporate ethics scandals shake investor confidence in corporations and leaders, the importance of ethical leadership and keeping long-term interests of stakeholders in mind is becoming more widely acknowledged.

**Servant leadership** is a leadership approach that defines the leader's role as serving the needs of others. According to this approach, the primary mission of the leader is to develop employees and help them reach their goals. Servant leaders put their employees first, understand their personal needs and desires, empower them, and help them develop in their careers. Unlike mainstream management approaches, the overriding objective in servant leadership is not limited to getting employees to contribute to organizational goals. Instead, servant leaders feel an obligation to their employees, customers, and the external community. Employee happiness is seen as an end in itself, and servant leaders sometimes sacrifice their own well-being to help employees succeed. In addition to a clear focus on having a moral compass, servant leaders are also interested in serving the community. In other words, their efforts to help others are not restricted to company insiders, and they are genuinely

concerned about the broader community surrounding their organization. Greenleaf, R. K. (1977). *Servant Leadership: A journey into the nature of legitimate power and greatness*. Mahwah, NJ: Paulist Press; Liden, R. C., Wayne, S., J., Zhao, H., & Henderson, D. (2008). Servant leadership: Development of a multidimensional measure and multi-level assessment. *Leadership Quarterly*, 19, 161–177. According to historian Doris Kearns Goodwin, Abraham Lincoln was a servant leader because of his balance of social conscience, empathy, and generosity. Goodwin, D. K. (2005, June 26). The master of the game. *Time*. Retrieved November 20, 2008, from <http://www.time.com/time/printout/0,8816,1077300,00.html>.

Even though servant leadership has some overlap with other leadership approaches such as transformational leadership, its explicit focus on ethics, community development, and self-sacrifice are distinct characteristics of this leadership style. Research shows that servant leadership has a positive impact on employee commitment, employee citizenship behaviors toward the community (such as participating in community volunteering), and job performance. Liden, R. C., Wayne, S., J., Zhao, H., & Henderson, D. (2008). Servant leadership: Development of a multidimensional measure and multi-level assessment. *Leadership Quarterly*, 19, 161–177. Leaders who follow the servant leadership approach create a climate of fairness in their departments, which leads to higher levels of interpersonal helping behavior. Ehrhart, M. G. (2004). Leadership and procedural justice climate as antecedents of unit-level organizational citizenship behavior. *Personnel Psychology*, 57, 61–94.

Servant leadership is a tough transition for many managers who are socialized to put their own needs first, be driven by success, and tell people what to do. In fact, many of today's corporate leaders are not known for their humility! However, leaders who have adopted this approach attest to its effectiveness. David Wolfskehl, of Action Fast Print in New Jersey, founded his printing company when he was 24 years old. He marks the day he started asking employees what he can do for them as the beginning of his company's new culture. In the next 2 years, his company increased its productivity by 30%. Buchanan, L. (2007, May). In praise of selflessness: Why the best leaders are servants. *Inc.*, 29(5), 33–35.

## **OB Toolbox: Be a Servant Leader**

One of the influential leadership paradigms involves leaders putting others first. This could be a hard transition for an achievement-oriented and success-driven manager who rises to high levels. Here are some tips to achieve servant leadership.

- **Don't ask what your employees can do for you.** Think of what you can do for them. Your job as a leader is to be of service to them. How can you relieve their stress? Protect them from undue pressure? Pitch in to help them? Think about creative ways of helping ease their lives.
- **One of your key priorities should be to help employees reach their goals.** This involves getting to know them. Learn about who they are and what their values and priorities are.
- **Be humble.** You are not supposed to have all the answers and dictate others. One way of achieving this humbleness may be to do volunteer work.
- **Be open with your employees.** Ask them questions. Give them information so that they understand what is going on in the company.

- **Find ways of helping the external community.** Giving employees opportunities to be involved in community volunteer projects or even thinking and strategizing about making a positive impact on the greater community would help.

Sources: Based on information presented in Buchanan, L. (2007, May). In praise of selflessness: Why the best leaders are servants. *Inc*, 29(5), 33–35; Douglas, M. E. (2005, March). Service to others. *Supervision*, 66(3), 6–9; Ramsey, R. D. (2005, October). The new buzz word. *Supervision*, 66(10), 3–5.

## **Authentic Leadership**

Leaders have to be a lot of things to a lot of people. They operate within different structures, work with different types of people, and they have to be adaptable. At times, it may seem that a leader’s smartest strategy would be to act as a social chameleon, changing his or her style whenever doing so seems advantageous. But this would lose sight of the fact that effective leaders have to stay true to themselves. The authentic leadership approach embraces this value: Its key advice is “be yourself.” Think about it: We all have different backgrounds, different life experiences, and different role models. These trigger events over the course of our lifetime that shape our values, preferences, and priorities. Instead of trying to fit into societal expectations about what a leader should be, act like, or look like, authentic leaders derive their strength from their own past experiences. Thus, one key characteristic of authentic leaders is that they are self-aware. They are introspective, understand where they are coming from, and have a thorough understanding of their own values and priorities. Secondly, they are not afraid to act the way they are. In other words, they have high levels of personal integrity. They say what they think. They behave in a way consistent with their values. As a result, they remain true to themselves. Instead of trying to imitate other great leaders, they find their own style in their personality and life experiences. Avolio, B. J., & Gardner, W. L. (2005). Authentic leadership development: Getting to the root of positive forms of leadership. *Leadership Quarterly*, 16, 315–338; Gardner, W. L., Avolio, B. J., Luthans, F., May, D. R., & Walumbwa, F. (2005). “Can you see the real me?” A self-based model of authentic leader and follower development. *Leadership Quarterly*, 16, 343–372; George, B. (2007). Authentic leaders: They inspire and empower others. *Leadership Excellence*, 24(9), 16–17; Ilies, R., Morgeson, F. P., & Nahrgang, J. D. (2005). Authentic leadership and eudaemonic well-being: Understanding leader-follower outcomes. *Leadership Quarterly*, 16, 373–394; Sparrowe, R. T. (2005). Authentic leadership and the narrative self. *Leadership Quarterly*, 16, 419–439.

One example of an authentic leader is Howard Schultz, the founder of Starbucks Corporation coffeehouses. As a child, Schultz witnessed the job-related difficulties his father experienced as a result of medical problems. Even though he had no idea he would have his own business one day, the desire to protect people was shaped in those years and became one of his foremost values. When he founded Starbucks, he became an industry pioneer by providing health insurance and retirement coverage to part-time as well as full-time employees. Shamir, B., & Eilam, G. (2005). What’s your story? A life-stories approach to authentic leadership development. *Leadership Quarterly*, 16, 395–417.

Authentic leadership requires understanding oneself. Therefore, in addition to self-reflection, feedback from others is needed to gain a true understanding of one’s behavior and its impact on others.



Authentic leadership is viewed as a potentially influential style, because employees are more likely to trust such a leader. Moreover, working for an authentic leader is likely to lead to greater levels of satisfaction, performance, and overall well-being on the part of employees. Walumbwa, F. O., Avolio, B. J., Gardner, W. L., Wernsing, T. S., & Peterson, S. J. (2008). Authentic leadership: Development and validation of a theory-based measure. *Journal of Management*, 34, 89–126.

## **KEY TAKEAWAY**

Contemporary approaches to leadership include transformational leadership, leader-member exchange, servant leadership, and authentic leadership. The transformational leadership approach highlights the importance of leader charisma, inspirational motivation, intellectual stimulation, and individualized consideration as methods of influence. Its counterpart is the transactional leadership approach, in which the leader focuses on getting employees to achieve organizational goals. According to the leader-member exchange (LMX) approach, the unique, trust-based relationships leaders develop with employees are the key to leadership effectiveness. Recently, leadership scholars started to emphasize the importance of serving others and adopting a customer-oriented view of leadership; another recent focus is on the importance of being true to oneself as a leader. While each leadership approach focuses on a different element of leadership, effective leaders will need to change their style based on the demands of the situation, as well as utilizing their own values and moral compass.

## **EXERCISES**

1. What are the characteristics of transformational leaders? Are transformational leaders more effective than transactional leaders?
2. What is charisma? What are the advantages and disadvantages of charismatic leadership? Should organizations look for charismatic leaders when selecting managers?
3. What are the differences (if any) between a leader having a high-quality exchange with employees and being friends with employees?
4. What does it mean to be a servant leader? Do you know any leaders whose style resembles servant leaders? What are the advantages of adopting such a leadership style?
5. What does it mean to be an authentic leader? How would such a style be developed?

## 12.6 The Role of Ethics and National Culture

### LEARNING OBJECTIVES

1. Consider the role of leadership for ethical behavior.
2. Consider the role of national culture on leadership.

### Leadership and Ethics

As some organizations suffer the consequences of ethical crises that put them out of business or damage their reputations, the role of leadership as a driver of ethical behavior is receiving a lot of scholarly attention as well as acknowledgement in the popular press. Ethical decisions are complex and, even to people who are motivated to do the right thing, the moral component of a decision may not be obvious. Therefore, employees often look to role models, influential people, and their managers for guidance in how to behave. Unfortunately, research shows that people tend to follow leaders or other authority figures even when doing so can put others at risk. The famous Milgram experiments support this point. Milgram conducted experiments in which experimental subjects were greeted by someone in a lab coat and asked to administer electric shocks to other people who gave the wrong answer in a learning task. In fact, the shocks were not real and the learners were actors who expressed pain when shocks were administered. Around two-thirds of the experimental subjects went along with the requests and administered the shocks even after they reached what the subjects thought were dangerous levels. In other words, people in positions of authority are influential in driving others to ethical or unethical behaviors. Milgram, S. (1974). *Obedience to authority; an experimental view*. New York: Harper & Row; Trevino, L. K., & Brown, M. E. (2004). Managing to be ethical: Debunking five business ethics myths. *Academy of Management Executive*, 18(2), 69–81.

It seems that when evaluating whether someone is an effective leader, subordinates pay attention to the level of ethical behaviors the leader demonstrates. In fact, one study indicated that the perception of being ethical explained 10% of the variance in whether an individual was also perceived as a leader. The level of ethical leadership was related to job satisfaction, dedication to the leader, and a willingness to report job-related problems to the leader. Brown, M. E., Trevino, L. K., & Harrison, D. A. (2005). Ethical leadership: A social learning perspective for construct development and testing. *Organizational Behavior and Human Decision Processes*, 97, 117–134; Morgan, R. B. (1993). Self- and co-worker perceptions of ethics and their relationships to leadership and salary. *Academy of Management Journal*, 36, 200–214.

Leaders influence the level of ethical behaviors demonstrated in a company by setting the tone of the organizational climate. Leaders who have high levels of moral development create a more ethical organizational climate. Schminke, M., Ambrose, M. L., & Neubaum, D. O. (2005). The effect of leader moral development on ethical climate and employee attitudes. *Organizational Behavior and Human Decision Processes*, 97, 135–151. By acting as a role model for ethical behavior, rewarding ethical

behaviors, publicly punishing unethical behaviors, and setting high expectations for the level of ethics, leaders play a key role in encouraging ethical behaviors in the workplace.

The more contemporary leadership approaches are more explicit in their recognition that ethics is an important part of effective leadership. Servant leadership emphasizes the importance of a large group of stakeholders, including the external community surrounding a business. On the other hand, authentic leaders have a moral compass, they know what is right and what is wrong, and they have the courage to follow their convictions. Research shows that transformational leaders tend to have higher levels of moral reasoning, even though it is not part of the transformational leadership theory. Turner, N., Barling, J., Epitropaki, O., Butcher, V., & Milner, C. (2002). Transformational leadership and moral reasoning. *Journal of Applied Psychology, 87*, 304–311. It seems that ethical behavior is more likely to happen when (a) leaders are ethical themselves, and (b) they create an organizational climate in which employees understand that ethical behaviors are desired, valued, and expected.

## **Leadership Around the Globe**

Is leadership universal? This is a critical question given the amount of international activity in the world. Companies that have branches in different countries often send expatriates to manage the operations. These expatriates are people who have demonstrated leadership skills at home, but will these same skills work in the host country? Unfortunately, this question has not yet been fully answered. All the leadership theories that we describe in this chapter are U.S.-based. Moreover, around 98% of all leadership research has been conducted in the United States and other western nations. Thus, these leadership theories may have underlying cultural assumptions. The United States is an individualistic, performance-oriented culture, and the leadership theories suitable for this culture may not necessarily be suitable to other cultures.

People who are perceived as leaders in one society may have different traits compared to people perceived as leaders in a different culture, because each society has a concept of ideal leader prototypes. When we see certain characteristics in a person, we make the attribution that this person is a leader. For example, someone who is confident, caring, and charismatic may be viewed as a leader because we feel that these characteristics are related to being a leader. These leadership prototypes are societally driven and may have a lot to do with a country's history and its heroes.

Recently, a large group of researchers from 62 countries came together to form a project group called Global Leadership and Organizational Behavior Effectiveness or GLOBE. House, R. J., Hanges, P. J., Javidan, M., Dorfman, P., & Gupta, V. (2004). *Culture, leadership, and organizations: The Globe Study of 62 societies*. Thousand Oaks, CA: Sage. This group is one of the first to examine leadership differences around the world. Their results are encouraging, because, in addition to identifying differences, they found similarities in leadership styles as well. Specifically, certain leader traits seem to be universal. Around the world, people feel that honesty, decisiveness, being trustworthy, and being fair are related to leadership effectiveness. There is also universal agreement in characteristics viewed as undesirable in leaders: being irritable, egocentric, and a loner. Den Hartog, D. N., House, R. J., Hanges, P. J., Ruiz-Quintanilla, S. A., & Dorfman, P. W. (1999). Culture specific and cross-culturally generalized implicit

leadership theories: Are attributes of charismatic/transformational leadership universally endorsed? *Leadership Quarterly*, 10(2), 219–256; Javidan, M., Dorfman, P. W., De Luque, M. S., & House, R. J. (2006). In the eye of the beholder: Cross cultural lessons in leadership from project GLOBE. *Academy of Management Perspectives*, 20(1), 67–90. Visionary and charismatic leaders were found to be the most influential leaders around the world, followed by team-oriented and participative leaders. In other words, there seems to be a substantial generalizability in some leadership styles.

Even though certain leader behaviors such as charismatic or supportive leadership appear to be universal, what makes someone charismatic or supportive may vary across nations. For example, when leaders fit the leadership prototype, they tend to be viewed as charismatic, but in Turkey, if they are successful but did not fit the prototype, they were still viewed as charismatic. Ensari, N., & Murphy, S. E. (2003). Cross-cultural variations in leadership perceptions and attribution of charisma to the leader. *Organizational Behavior and Human Decision Processes*, 92, 52–66. In Western and Latin cultures, people who speak in an emotional and excited manner may be viewed as charismatic. In Asian cultures such as China and Japan, speaking in a monotonous voice may be more impressive because it shows that the leader can control emotions. Similarly, how leaders build relationships or act supportively is culturally determined. In collectivist cultures such as Turkey or Mexico, a manager is expected to show personal interest in employees' lives. Visiting an employee's sick mother at the hospital may be a good way of showing concern. Such behavior would be viewed as intrusive or strange in the United States or the Netherlands. Instead, managers may show concern verbally or by lightening the workload of the employee. Brodbeck, F. C., Frese, M., Akerblom, S., & Audia, G. (2000). Cultural variation of leadership prototypes across 22 European countries. *Journal of Occupational and Organizational Psychology*, 31, 1–29; Den Hartog, D. N., House, R. J., Hanges, P. J., Ruis-Quintanilla, S. A., & Dorfman, P. W. (1999). Culture specific and cross-culturally generalized implicit leadership theories: Are attributes of charismatic/transformational leadership universally endorsed? *Leadership Quarterly*, 10, 219–256.

There were also many leader characteristics that vary across cultures. Dorfman, P. W., Howell, J. P., Hibino, J. P., Lee, J. K., Tate, U., & Bautista, A. (1997). Leadership in Western and Asian countries: Commonalities and differences in effective leadership processes across cultures. *Leadership Quarterly*, 8, 233–274; Gerstner, C. R., & Day, D. V. (1994). Cross-cultural comparison of leadership prototypes. *Leadership Quarterly*, 5, 121–134. Traits such as being autonomous, conflict avoidant, status conscious, and ambitious were culturally dependent. For example, in France, employees do not expect their leaders to demonstrate empathy. Leaders demonstrating self-sacrifice are also viewed negatively, suggesting that servant leadership would be an improper style there. In Middle Eastern cultures such as Egypt, leaders are expected to be superior to lay people. They are supposed to have all the answers, be confident, and authoritarian. In fact, leading like a benevolent autocrat (someone who cares about people but acts alone) may be an appropriate style. Javidan, M., Dorfman, P. W., De Luque, M. S., & House, R. J. (2006). In the eye of the beholder: Cross cultural lessons in leadership from project GLOBE. *Academy of Management Perspectives*, 20(1), 67–90. Even within the same geography, researchers identified substantial cultural differences. For example, in Europe, there were five clusters of cultures. Directness in interpersonal relationships was viewed positively in Nordic cultures such as Finland, but negatively in Near Eastern cultures such as Turkey. Similarly, leaders who are autonomous were viewed positively in Germanic cultures such as Austria, but negatively in Latin European cultures such as

Portugal. Brodbeck, F. C., Frese, M., Akerblom, S., & Audia, G. (2000). Cultural variation of leadership prototypes across 22 European countries. *Journal of Occupational and Organizational Psychology*, 31, 1–29. Finally, in some cultures, good leaders are paternalistic. These leaders act like a parent to employees, give advice, care for them, and get obedience and loyalty in return. Aycan, Z., Kanungo, R. N., Mendonca, M., Yu, K., Deller, J., Stahl, G., et al. (2000). Impact of culture on human resource management practices: A 10-country comparison. *Applied Psychology: An International Review*, 49, 192–221; Pellegrini, E. K., & Scandura, T. A. (2008). Paternalistic leadership: A review and agenda for future research. *Journal of Management*, 34, 556–593.

Given all these differences, effective leaders should develop a sensitivity to cultural differences and adapt their style when they work in different societies or with people from different cultural backgrounds. It seems that flexibility is an important trait for global leaders.

### **KEY TAKEAWAY**

People get their cues for ethical behaviors from leaders. Therefore, leadership characteristics and style will influence the level of ethical behaviors employees demonstrate. Being ethical is related to being perceived as a leader, and ethical leaders create a more satisfied workforce. More contemporary approaches such as servant leadership and authentic leadership explicitly recognize the importance of ethics for leadership effectiveness. Some leadership traits seem to be universal. Visionary, team-oriented, and to a lesser extent participative leadership seem to be the preferred styles around the world. However, traits such as how confident leaders should be and whether they should sacrifice themselves for the good of employees and many others are culturally dependent. Even for universal styles such as charismatic and supportive leadership, how leaders achieve charisma and supportiveness seems to be culturally dependent.

### **EXERCISES**

1. What is the connection between leadership and ethical behaviors?
2. Do you believe that ethical leaders are more successful in organizations?
3. Which of the leadership theories seem to be most applicable to other cultures? Which ones are culturally dependent?

## 12.7 Leadership Development: The Case of Starbucks

Starbucks Coffee (NASDAQ: SBUX) was born out of a desire for convenience and accessibility to great coffee. In 1971, three friends made that desire a reality and established the first Starbucks coffee house in historic Pike Place Market on Seattle's waterfront. In 1990, Starbucks drafted its first mission statement, and the number one principle was to "provide a great work environment and treat each other with respect and dignity." How has the company lived up to that declaration 20 years later?? Starbucks has consistently made Fortune magazine's "100 Best Companies to Work For" list and in addition is included on a list of the best places to work for LGBT (lesbian, gay, bisexual, and transgender) equality. Working conditions in the service and retail industry are notoriously low paying with long hours, but Starbucks manages to offer benefits for part-time and full-time employees as well as higher-than-average salaries for store managers. Why, one might ask, does Starbucks try so hard to set itself apart?

Leadership development is a core element of the business process at Starbucks, which ensures that the organizational culture of the company is maintained with every CEO successor. Starbucks is forward looking in this respect and strives to attract future business leaders and managers. The idea of planning for one's own succession can often make people uneasy, but this idea is openly embraced at Starbucks. The company plans far in advance to replace its top-level successors. The importance of leadership is not only ingrained in the upper management team, but Starbucks also ensures that this is an understood value throughout the organization. In 2004, the Coffee Master program was introduced to teach employees about regional coffee flavors. Graduates of the Coffee Master program earn a prestigious black apron and a special insignia on their business cards. In creating this ethos, Starbucks excels at its ability to attract an educated workforce with a high satisfaction level where individuals often move up to become effective leaders within the company.

With the recession of 2009, Starbucks has been forced to rethink its traditional strategy of accelerated growth by closing over 30,000 stores. CEO Howard Schultz has cut his salary to less than \$10,000 a year, down from \$1.2 million. Despite these slowdowns, Starbucks continues to call employees "partners" and offers a dynamic place to work. As a result, the company had more than 150,000 people apply for jobs last year, a sure indication that the company's ability to cultivate talented leaders is as strong as ever.

Case written by [citation redacted per publisher request]. Based on information from Helm, B. (2007, April 9). Saving Starbucks' soul. *BusinessWeek*. pp. 56–61. Retrieved April 30, 2010, from [http://www.businessweek.com/magazine/content/07\\_15/b4029070.htm](http://www.businessweek.com/magazine/content/07_15/b4029070.htm); Cohn, J., Khurana, R., & Reeves, L. (2005). Growing talent as if your business depended on it. *Harvard Business Review*, 83(10), 62–70; Stanley, A. (2002). Starbucks Coffee Company. Tuck School of Business at Dartmouth (no. 1–0023). Retrieved April 23, 2010, from <http://mba.tuck.dartmouth.edu/pdf/2002-1-0023.pdf>; 100 best companies to work for. (2010, February 8). *Fortune*. Retrieved February 14, 2010, from <http://money.cnn.com/magazines/fortune/bestcompanies/2010/snapshots/93.html>; Miller, C. C. (2009, January 29). Starbucks to close 300 stores and open fewer new ones. *New York Times*. Retrieved February 15, 2010, from <http://www.nytimes.com/2009/01/29/business/29sbux.html>.

## QUESTIONS

1. Why does Starbucks Coffee consider internal leadership development such an important part of its core business process?
2. What possible negative repercussions can the aggressive growth strategy that Starbucks exhibits have on its leadership agenda?
3. With the slowdown of business, how can Starbucks ensure that the importance of leadership development does not get overlooked?
4. How does your experience with leadership and management compare with the case of Starbucks?

## **12.8 Conclusion**

In this chapter we have reviewed the most influential leadership theories. Trait approaches identify the characteristics required to be perceived as a leader and to be successful in the role. Intelligence, extraversion, conscientiousness, openness to experience, and integrity seem to be leadership traits. Behavioral approaches identify the types of behaviors leaders demonstrate. Both trait and behavioral approaches suffered from a failure to pay attention to the context in which leadership occurs, which led to the development of contingency approaches. Recently, ethics became an explicit focus of leadership theories such as servant leadership and authentic leadership. It seems that being conscious of one's style and making sure that leaders demonstrate the behaviors that address employee, organizational, and stakeholder needs are important and require flexibility on the part of leaders.



## 12.9 Exercises

### ETHICAL DILEMMA

You are currently a department manager and Jim is your “trusted assistant.” You have very similar working styles, and you went to the same college and worked in the insurance industry for several years. Before working in this company, you both worked at a different company and you have this shared history with him. You can trust him to come to your aid, support you in your decisions, and be loyal to you. Because of your trust in him, you do not supervise his work closely, and you give him a lot of leeway in how he structures his work. He sometimes chooses to work from home, and he has flexibility in his work hours, which is unusual in the department.

Now you decided to promote him to be the assistant department manager. However, when you shared this opinion with someone else in the department, you realized that this could be a problem. Apparently, Jim is not liked by his colleagues in the department and is known as an “impression manager.” Others view him as a slacker when you are not around, and the fact that he gets the first pick in schedules and gets the choice assignments causes a lot of frustration on the part of others. They feel that you are playing favorites.

Discussion Questions:

1. What would you do?
2. Would you still promote him?
3. How would you address this unpleasant situation within your department?

### EXERCISE

Ideas for Developing Yourself as an Authentic Leader

Authentic leaders have high levels of self-awareness, and their behavior is driven by their core personal values. This leadership approach recognizes the importance of self-reflection and understanding one’s life history. Answer the following questions while you are alone to gain a better understanding of your own core values and authentic leadership style.

- Understand Your History
  - Review your life history. What are the major events in your life? How did these events make you the person you are right now?
  - Think about your role models. Who were your role models as you were growing up? What did you learn from your role models?
- Take Stock of Who You Are Now
  - Describe your personality. How does your personality affect your life?
  - Know your strengths and weaknesses. What are they and how can you continue to improve yourself?

- Reflect on Your Successes and Challenges
  - Keep a journal. Research shows that journaling is an effective tool for self-reflection. Write down challenges you face and solutions you used to check your progress.
- Make Integrity a Priority
  - Understand your core values. What are your core values? Name three of your most important values.
  - Do an ethics check. Are you being consistent with your core values? If not, how can you get back on track?
- Understand the Power of Words
  - Words shape reality. Keep in mind that the words you use to describe people and situations matter. For example, how might the daily reality be different if you refer to those you manage as associates or team members rather than employees or subordinates?

In view of your answers to the questions above, what kind of a leader would you be if you truly acted out your values? How would people working with you respond to such a leadership style?

## **EXERCISE**

You are charged with hiring a manager for a fast-food restaurant. The operations within the store are highly standardized, and employees have very specific job descriptions. The person will be in charge of managing around 30 employees. There is a high degree of turnover among employees, so retention will be an important priority. Most employees who work in the restaurant are young with low levels of work experience, and few of them view the restaurant business as a full-time career. The atmosphere in the restaurant has a fast pace. In this company, managers are often promoted from within, and this position is an exception. Therefore, the incoming manager may not expect a warm welcome from employees who were passed over for a promotion, as well as their colleagues. Finally, the position power of the manager will be somewhat limited because employees are unionized. Therefore, the manager will have limited opportunities for distributing pay raises or bonuses.

### Discussion Questions

1. Identify the leadership traits and behaviors that are desirable for this position.
2. Design an approach to selecting this person. Which methods of employee selection would you use? Why?
3. Develop interview questions to be used in hiring this manager. Your questions should be aimed at predicting the leadership capabilities of the person in question.