

In search of leadership

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Introduction

This paper tries to do two things:

- Firstly, explore what we know about what leadership is and how that view has shifted over time
- And secondly to understand how management and leadership contribute to organisational performance

It might be expected that these two aspects are completely compatible, that our understanding of what leadership is should be closely entwined with our understanding of the impact it has. We shall see that this is far from true. We explore what we understand about what leadership is, before moving on to explore its impact.

Keywords: leadership, employment, work, workforce

What is leadership

The way we speak of leadership anticipates a belief in its value. Definitions of leadership are numerous but most contemporary ones include elements of defining and articulating shared organisational vision and the mobilisation of others towards reaching those goals, by engaging, inspiring and supporting individual and team effort. The emphasis has shifted over the years from influence through compliance; “the ability to impress the will of the leader on those led and to induce obedience, respect loyalty and co-operation”, (Stewart, quoted in Moore, 1927)¹ to one that is more clearly based upon mutual benefit; “leaders lead by pulling rather than pushing; by inspiring rather than challenging; by creating achievable expectations and rewarding progress toward them rather than by manipulating; by enabling people to use their own initiative and

¹ Moore, B.V. (1927) The May Conference on leadership. *Personnel Journal*, 6

experiences rather than by denying or constraining their experiences and actions “ (Bennis and Nanus, 1985)².”

The direct impact of effective leadership upon organisational performance, however, is often inferred, assumed and researched in a post-hoc direction. Thus, it has been customary to identify individual high performing organisations and then to study their leaders’ attributes, styles and approaches - inferring a causal relationship after the event. What is more, this is typically done on a single case basis – when the organisation is at its peak of performance, or alarmingly more recently, when there is a high profile incidence of scandal or exceptionally poor performance. The inferences that are drawn from these examples tend to be tentative at best, and unjustifiable at worst.

Inevitably leadership is set in this time and firmly located in the hopes, anxieties and culture of the time. Perhaps we get the leadership we deserve. Certainly views on leadership have shifted dramatically over the years and we may construe this as an act of progression, ie leadership and management theories come closer to the truth and more sophisticated over time, or perhaps, drawing on Abbott’s view of the evolution of knowledge in the social sciences (Abbott, 2001)³, knowledge creation within management and leadership is circular, with new schools of thought less a reaction to an established order than a reinvention of fundamental concepts. Or indeed it may be that each theory is embedded within its political and sociological context and aligns itself with wider concerns and beliefs of the time.

A historical analysis

Although there has been commentary regarding the role of management in the darkest recesses of history – the Sumerians in 3000BC kept records of business transactions and in 400 BC Socrates defined management as a separate skill from technical knowledge and experience⁴. The beginning of modern management, though, might be seen to have its seeds in the mid-19th century with the rise of the Industrial Revolution in the Western world. It is difficult to imagine the social and political upheaval of the time, ie the transition from agriculture and craft work towards the creation of factory environments. But it was not a shift dependent merely on technological advance, crucial though that may have been. It was rather the simultaneous coming together of a number of social and conceptual changes. In part its roots might be seen in the Age of Enlightenment which found a growing acceptance of scientific knowledge and the advocacy of reason as the primary basis of authority. With the Enlightenment the stage was set for the beginning of Capitalism and the laissez-faire economics of Adam Smith (*The Wealth of Nations*, 1776)⁵. The Industrial Revolution also drew breath from the social shifts caused by the Agricultural Revolution which sent many seeking work into towns and cities as they were no longer able to earn a living from the land. At the same time a relatively high population in the UK, free trade across the country (at a time when this was not the case across much of Europe) and growing international trade created potential markets. Placed into the same pot, the result was a unique environment where major new inventions could take root.

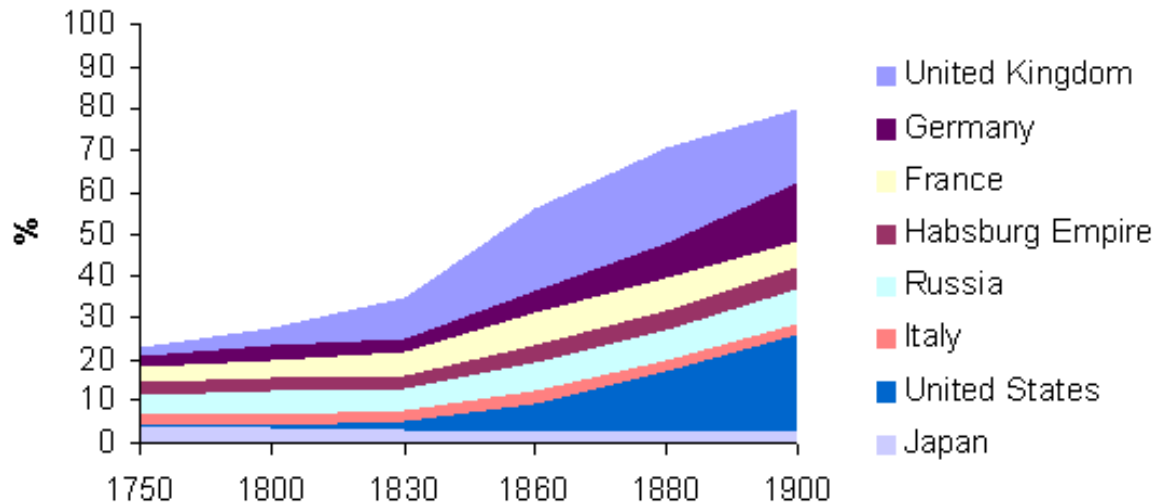
2 Bennis, W. and Nanus B (1985) *Leaders: The Strategies for Taking charge*. New York, Harper and Row),

3 Abbott, A.D (2001) *Chaos of Disciplines*. University of Chicago Press

4 Bragues, G, (2007) *Socrates on Management: An Analysis of Xenophon's Oeconomicus*. Social Science Research Network, Working paper Series, June

5 Smith, A. (1776) *An Inquiry into the Nature and Causes of the Wealth of Nations*. London, Methuen and Co., Ltd., ed. Edwin Cannan, 1904. Fifth edition

Relative Share of World Manufacturing Output, 1750-1900



Source: http://en.wikipedia.org/wiki/Industrial_Revolution

The impact was the concentration of jobs into the new factories and a resulting step change in the organisation of labour. These early factories were miserable affairs – punishingly long hours, poor working conditions and child labour that were only gradually attenuated. As a result the shifts in production, in society and in technology were profound. At the beginning of the 20th century conditions were set for a reflection on its impact and meaning and for the study of the organisation of work and management to take hold. Inevitably the changes led to a certain discomfort as they bedded in and adjusted, and as a result, many commented critically on what they observed.

Scientific Management

Perhaps one of the most famous management thinkers was Frederick Winslow Taylor, an American engineer who had learnt his trade alongside the steel workers at the turn of the century. He had been struck by the inefficiencies and poor practices that seemed to abound at that time, with workers deliberately limiting their productivity for fear of the contempt of their peers and a widespread belief that greater productivity would result in fewer jobs. His thoughts on scientific management were published in various essays in 1911⁶, and focused on breaking jobs down into tasks and finding the best way to perform them. He expressed a variety of concerns over the lack of efficiency that he saw all around him, over the adversarial nature of much of the relationships between employers and employees, and over the lack of leaders and good workers. Some of what he had to say seems curiously current in its concerns; he certainly thought that there was too much conflict in the relationships between workers and employers:

It would seem to be so self-evident that maximum prosperity for the employer, coupled with maximum prosperity for the employee, ought to be the two leading objects of management, that even to state this fact should be unnecessary. And yet there is no question that, throughout the industrial world, a large part of the organization of employers, as well as employees, is for war rather than for peace,

⁶ Taylor, F.W. (1911) *The Principles of Scientific Management*, New York, Harper Bros

and that perhaps the majority on either side do not believe that it is possible so to arrange their mutual relations that their interests become identical.

He also believed that managers should work closely with their workers:

And each man should daily be taught by and receive the most friendly help from those who are over him, instead of being, at the one extreme, driven or coerced by his bosses, and at the other left to his own unaided devices. (Taylor, 1911)

Despite these beliefs, workers were not always grateful for his efforts and his theories had to be implemented with some force and effort for the change he was seeking to take effect.

Another influential thinker of the same time was Max Weber (1864-1920), a German sociologist and political economist who also theorised about organisational systematic control and influence. He is most famous for his conceptualisation of bureaucracy⁷ - an ideal bureaucracy was defined by a hierarchy, a degree of impersonality, written rules of conduct, a focus on achievement or performance, efficiency and a specialised division of labour. Such bureaucracies might be seen as a means of expressing rational authority, compared to traditional authority or charismatic authority. Weber was not, however, universally positive about what he saw as its characteristics. In fact Weber's views about the inescapable rationalization and bureaucratization had similarities to Marx's notion of alienation⁸. Both men agreed that modern methods of organization had tremendously increased the effectiveness and efficiency of production and organization and allowed an unprecedented domination of man over the world of nature. They also agreed that the new world of rationalized efficiency had the downside of dehumanising the worker. But whereas Marx felt that this was merely a transitional stage and that workers would rise up and force a new world order, Weber saw such bureaucratization as inevitable.

Weber and Taylor were both drawn to the promise of increasing efficiency and were both aware of how this efficiency might bring greater growth and increased standards of living. Weber, however, also saw the potential dangers of doing so.

We can see how, in this era of efficiency and structure and process, the role of the manager was beginning to emerge as essential to keep production running. No surprises then that in this period there emerged a comprehensive theory of management which captured these needs (Henri Fayol)⁹. Fayol's approach to management (published in 1916, although it did not achieve widespread impact until its translation in 1940) considered 5 aspects of a manager's job:

- Planning
- Organizing
- Commanding
- Coordinating activities
- Controlling performance

And fourteen of what he termed principles of management (1916):

1. **Specialization of labour** - which encourages improvements in skills and methods
2. **Authority** - the right to give orders.

⁷ Weber, M. (1968) *Economy and Society*. Edited by Roth, G. and Wittich, C. New York

⁸ Cox, J. (1998) An Introduction to Marx's Theory Of Alienation, Issue 79 of INTERNATIONAL SOCIALISM. Quarterly journal of the Socialist Workers Party (Britain) Published July 1998 Copyright © International Socialism,

⁹ F. W. Taylor published "The Principles of Scientific Management" in the USA in 1911. See for eg Tillet, A., Kempner, T. and Wills, G. (1970) *Management Thinkers*. Penguin,

3. **Discipline** - obedience, application, energy, behaviour and outward marks of respect observed in accordance with standing agreements between firms and its employees
4. **Unity of command** - each employee has one person who will give them instructions.
5. **Unity of direction** - one person generates a plan and all play their part in that plan.
6. **Subordination of individual interests** - an individual's interests should not prevail over the interests of the organisation.
7. **Remuneration** - employees should receive fair payment for services.
8. **Centralization** - consolidation of management functions. Decisions are made from the top.
9. **Scalar Chain** (line of authority) - a formal chain of command running from top to bottom of the organization, which should be clear, sensible and understood
10. **Order** - an organisation "should" provide an orderly place for each individual member - who needs to see how their role fits into the organisation and be confident, able to predict the organisation's behaviour towards them.
11. **Equity** - equity, fairness and a sense of justice "should" pervade the organisation - in principle and practice
12. **Personnel tenure** - time is needed for the employee to adapt to his/her work and perform it effectively. Stability of tenure promotes loyalty to the organisation, its purposes and values.
13. **Initiative** - at all levels of the organisational structure, zeal, enthusiasm and energy are enabled by people having the scope for personal initiative.
14. **Esprit de corps** - harmony and cohesion among personnel.

We might see Taylor and Fayol as complementary, the one seeing the need for greater efficiency in the doing of work, the other in its control, but Fayol himself saw his thinking as distinct. In the classic 'General and Industrial Management'¹⁰ Fayol wrote that

"Taylor's approach differs from the one we have outlined in that he examines the firm from the "bottom up." He starts with the most elemental units of activity -- the workers' actions -- then studies the effects of their actions on productivity, devises new methods for making them more efficient, and applies what he learns at lower levels to the hierarchy ... (Fayol, 1949, p43)."

Nonetheless, perhaps with the benefits of hindsight we can see a commonality of view embedded in the conditions of the time which believed management to be fundamentally about control and creating effective systems and processes of work. There was another management thinker who took a very different view. Mary Parker Follett (1868-1933)¹¹ spoke of a much more humanistic management. Follett suggested that organizations function on the principle of power "with" and not power "over." She recognized the holistic nature of community and advanced the idea of "reciprocal relationships" in understanding the dynamic aspects of the individual in relationship to others. Follett advocated the principle of integration and "power sharing." Her writings might be thought of as out of step with the common themes of the time and it is only relatively recently that her contribution has been more widely acknowledged¹². At this time of emerging thinking regarding management and leadership it can be seen to be a response to new problems and issues. The main movement emphasised efficiency whilst we see the emergence of more radical thinking which was less impactful at the time.

¹⁰ Fayol, H. (1949) *General and Industrial Management*. London, Sir Isaac Pitman & Sons.

¹¹ See for example Tonn, J.C. *Mary P. Follett: Creating Democracy, Transforming Management*. Yale University Press.

¹² Fry, B.R. and Thomas, L.L. (1996) *Mary Parker Follett: assessing the contribution and impact of her writings*. *Journal of Management History*, 2 (2), 1996

The rising importance of psychology

Industrial psychology might be another example of emerging concepts in this early part of the 20th century. Hugo Munsterberg (1911) cautioned managers to be concerned with "all the questions of the mind ... like fatigue, monotony, interest, learning, work satisfaction, and rewards." The beginnings of personnel as a profession might be seen in some of Munsterberg's areas of concern; in 1913 his book *Psychology and Industrial Efficiency* addressed such things as personnel selection and equipment design¹³.

Despite some of the economic and social unrest of the 1920s and 1930s, there was much positive change in organisations. The 1920s saw the rise in multi-divisional firms, the continued interest in the function of the organisation and a growing comfort with mass production, such that it began to define the industrialised world. The shift now was towards the ways in which organisations create productivity beyond the time and motion studies of the early years of the century. Indeed Alfred Chandler developed the thesis of *The Visible Hand*¹⁴ so that, counter to popular dogma regarding how capitalism functions, administrative structure and managerial coordination replaced Adam Smith's "invisible hand" (market forces) as the core developmental and structuring impetus of modern business. The rise of Management as an increasingly important concept therefore continued.

As the 1920s came to an end there were clear signs of a shift towards an interest in the way people behaved at work and what influenced that behaviour. The seedling concepts of Industrial Psychology could be seen to be taking root. The Hawthorne experiments¹⁵ of 1927 explored the importance of social cohesion in the group and social collaboration. Elton Mayo concluded that people's work performance is dependent on both social issues and job content. He suggested a tension between workers' 'logic of sentiment' and managers' 'logic of cost and efficiency' which could lead to conflict within organisations¹⁶. The decade that followed saw the growth of people-centred approaches.

Trait theory

Towards the end of the 1930s there was growing interest in *how* management worked and more specifically how managers made a difference within organisations. This important shift was from management as impersonal ie an interest in what management was, to a much more personal focus on managers themselves and who they were or what they did that made a difference. Two major streams of theory began to develop. The first of these (trait theory) attempted to throw light on what was special about managers and leaders and considered leaders as individuals endowed with certain personality traits which constituted their ability to lead. Over the years a large number of studies identified a wide array of traits but despite much effort, it did not seem that the research was evolving towards a common view, and gradually trait theory began to decline in influence. An overview of trait theory by Stogdill in 1948¹⁷ concluded that traits varied by situation, as did the relative impact of traits and no trait correlated highly with effectiveness by itself. Trait theory can be seen to have evolved from the happy co-incidence of the interest in psychology, the growing science of psychometrics¹⁸, and the increasing demand for, and importance of, management.

Style theory

Often thought of as coming after trait theory but in reality emerging only slightly later and running alongside it for a number of years, an obviously contrasting approach

13 Munsterberg, H. (1913) *Psychology and Industrial Efficiency*. Boston and New York, Houghton Mifflin Company.

14 Chandler, A.D. Jr. (1977) *The Visible Hand: The Managerial Revolution in American Business*. Cambridge, MA,: Harvard Belknap

15 Mayo, E. (1949) *Hawthorne and the Western Electric Company, The Social Problems of an Industrial Civilisation*. WHERE, Routledge.

16 Mayo, E. (1933) *The Human Problems of an Industrial Civilization*. London Macmillan.

17 Stogdill, R.M. (1948) Personal factors associated with leadership: Survey of literature. *The Journal of Psychology*, 25

18 Rust, J.R. and Golombok, S (1999) *Modern Psychometrics: The Science of Psychological Assessment*. WHERE, Routledge

emphasising leadership style was also researched and discussed. Some researchers looked instead to what leaders did - how they behaved, especially towards followers. In modern parlance, they shifted attention from leaders to leadership - and this became the dominant way of approaching leadership within organizations in the 1950s and early 1960s. Different patterns of behaviour were grouped together and labelled as styles.

In reality the nascent beginnings of style theories can be seen in the work of Lewin, Lippitt and White¹⁹, who in 1938 suggested there were three management styles:

- Autocratic (centralises authority, dictates work methods, makes unilateral decisions, limits participation)
- Democratic (involves in decision making, delegates authority, encourages participation, uses feedback to coach, participation results in higher satisfaction, greater decision acceptance). 2 versions: democratic consultative (seeks input), and democratic participative (allows say)
- Laissez faire (offers complete freedom to employees to make decisions and do work, provides materials and answers questions)

Style theory re-emerged from some particularly influential studies when researchers at both Michigan and Ohio universities independently arrived at behaviours that had much in common. The Michigan studies²⁰ suggested three critical styles of behaviours of effective leaders:

- Task oriented behaviour
- Relationship oriented behaviour
- Participative leadership

The Ohio studies²¹ also identified similar critical styles:

- Consideration
- Initiating structure

As a consequence of this early work, various applications of style theory emerged to diagnose and develop people's style of working. In reality they were all rather similar and focused on four main styles:

- Concern for task - leaders emphasise the achievement of concrete objectives
- Concern for people - leaders emphasise employees' needs, their development etc
- Directive leadership - leaders take decisions for others
- Participative leadership - leaders share decision-making with others.

The move to style from trait might be seen as a reaction to the failure of trait theories but in reality it predated the evidence base. It might be considered the expression of the underlying tension between the personal and the impersonal, between leaders and managers on the one hand and leadership and management on the other, two different and at this stage, two opposing perspectives.

TQM

Enough of the mainstream for a moment; we need to go back in time to make sense of other emerging trends. As we have seen, by the 1940s and 1950s there was considerable interest in management as a unique part of the mix of successful companies. Global pressures also began to fire interest in management; the end of the Second World War had left Germany and Japan defeated nations but in the decades that

¹⁹ Lewin, K., Lippitt, R. and White, R.K. (1939) Patterns of aggressive behavior in experimentally created social climates. *Journal of Social Psychology*, 10, pp.271-301.

²⁰ Likert, R (1961) *New Patterns of management*. New York, McGraw Hill

²¹ Fleischman, E., Harris, E. and Burt, H. (1955) *Leadership and Supervision in Industry*. Bureau of Educational Research, Ohio University.

followed both countries began to prosper economically and in many ways started to gain the economic upper hand. The quality movement in Japan began in 1946 with the U.S. Occupation Force's mission to revive and restructure Japan's communications equipment industry. They recommended W. Edwards Deming to provide a seminar in Japan on statistical quality control (SQC). Deming's 1950 lecture²² provided the criteria for Japan's famed Deming Prize. In 1954, Dr. Joseph M. Juran of the United States raised the level of quality management from the factory to the total organization. He stressed the importance of systems thinking that begins with product designs, prototype testing, proper equipment operations, and accurate process feedback. Juran provided the move from SQC to TQC (total quality control) in Japan.²³

Motivation

The growing interest in TQM might be seen as a minor path alongside the much more heavily trodden interest in psychological conceptions of management, what managers were and how they behaved. And the fact that TQM blossomed in quite another cultural setting may reflect this. Meanwhile on the main route, other trends were brewing in the field of psychology. In the mid 1940s Abraham Maslow devised a hierarchy of needs from physiological needs, ie food, shelter, etc through to self actualisation – being the person you were meant to be²⁴. Whilst the theory has received limited empirical support (of several scores of studies which have been conducted a handful provide some measure of support, the remainder are either ambivalent or negative) (Wahba and Bridwell, 1976²⁵) it still remains popular. It has been suggested that this continuing popularity may be due to a populist disregard of empirical evidence as being irrelevant, the theory's intuitive appeal and its practical resonance (Dick, 2001)²⁶. Maslow saw humans as possessing limitless potential for growth. This belief and its implications for organisations and management were enormously appealing.

It was also a good time for humanist perspectives. The 1960s were a turbulent decade with shifting social trends, and a growing push towards liberalism which chimed well with a growth in interest in employee behaviour and the role of motivation. Herzberg (1968) proposed the Motivation-Hygiene Theory based on Maslow's hierarchy of needs, also known as the two factor theory of job satisfaction²⁷. According to his theory, people are influenced by two factors:

- motivator factors which create satisfaction, but have little effect on dissatisfaction.
- hygiene factors which, if absent or inadequate, cause dissatisfaction, but their presence has little effect on long-term satisfaction.

Other influential theories of motivation were also emerging at this time such as Vroom's (1964) Expectancy theory²⁸. Expectancy theory predicts that employees in an organization will be motivated when they believe that:

- putting in more effort will yield better job performance

22 http://deming.eng.clemson.edu/den/deming_1950.htm

23 Butman, J. (1997) *Juran: A Lifetime of Influence*. WHERE, John Wiley and Sons

24 Maslow, A.H. A Theory of Human Motivation. *Psychological Review*, 50 (1943), pp.370-96; Maslow, A. (1954) *Motivation and Personality*. New York, Harper

25 Wahba, M.A. and Bridwell, L.G. (1976) Maslow reconsidered: a review of research on the need hierarchy theory. *Organizational Behaviour and Human Performance*, 15, pp.212-240.

26 Dick, B. (2001) *Maslow Revisited*. Available from http://uqconnect.net/~zzbdick/dlitt/DLitt_P02masrev.pdf

27 Herzberg, F. (2008) One More Time: How do You Motivate Employees. *Harvard Business Review Classics*, Harvard Business School Press

28 Vroom, V.H. (1964) *Work and Motivation*. New York, John Wiley and Sons

- better job performance will lead to organizational rewards, such as an increase in salary or benefits
- these predicted organizational rewards are valued by the employee in question.

The sixties might be thought of the decade that encouraged growing liberalism and individualism. The next decade was rather different.

Contingency theories

During the 1970s business conditions took a turn for the worse. Oil prices rose dramatically which had severe knock-on effects for the world economy. Total factory productivity slowed in all industrial countries. In the UK and the US inflation rose at the same time as productivity stalled leading to 'stagflation'. Meanwhile on both sides of the Atlantic the political leaders experienced turmoil. In the US Nixon was embroiled in the Vietnam War and then Watergate. In the UK industrial unrest blighted the seventies and political leaders came and went. Overall the seventies were characterised by institutional rigidities, strong trade unions, lax competition policies and a slow down in technological advance. This was not a good time for management and leadership and whilst political leaders in the UK blamed the trade unions for inflationary wage claims, the trade unions blamed management for a poorly run economy and a failure to invest in the future.

By this time both style and trait theory had failed to deliver on their promise. Despite considerable research on traits it seemed that the list just kept growing and it seemed impossible to find a common set that identified the high performing leaders. By the 1970s contingency theory was an obvious successor.

Studies attempted to identify "distinctive characteristics of the setting to which the leader's success could be attributed" (Hoy and Miskel, 1987)²⁹. Now leadership needs to be suited to the particular situation – a mix of subordinate, task, and group variables. In reality contingency theory is an evolution of style theory, except now different styles of leadership are appropriate to the demands created by different organisational situations. In Fiedler's Contingency theory (1967)³⁰, leadership effectiveness is an interplay between leadership orientation (human relations versus task), leader-member relations (mutual trust and respect), task structure (how much clarity and simplicity is there), and leader-position power.

This interplay of people versus task centeredness was at the heart of other models too, such as Hersey and Blanchard's (1969) situational leadership model³¹ adapted from Blake and Mouton's Managerial Grid³² with two dimensions of task and people orientation. The key situational variable is the maturity of followers which determines which of four leadership styles would be most effective. Contingency theory could certainly be seen to have helped shift the debate away from its previous context-free zone but one which could still be criticised on the grounds of over simplicity. Contingency theory was the culmination of a period of theorising that began with an interest in the practice of management as it emerged as critical to economic success, coinciding with emerging psychological perspectives and repeating tensions between the individual and the collective.

²⁹ Hoy, W.K. and Miskel, C.G. (1987) *Educational administration: Theory, research, and practice*. 3rd edition. New York, Random House.

³⁰ Fiedler, F.E. (1967) *A Theory of Leadership Effectiveness*, New York: McGraw-Hill.

³¹ Hersey, P. and Blanchard, P. (1969) The life cycle theory of leadership. *Training and Development Journal*, 23 (5)

³² Blake, R. and Mouton, J. (1964) *The Managerial Grid: The Key to Leadership Excellence*. Houston, Gulf Publishing Co.

Role models

The next key step might be the evolution of role models; an emerging focus less on who leaders are, less on how they behave, and rather more on the roles they fulfil, ie what is it good leaders do that makes the difference? The relationship between these emerging models, styles and contingency approaches can be seen. But the key difference is that these role models might be thought of as seeing leadership as a multiplicity of roles and not one style versus another. Leaders were not seen as either people- or task-focused *per se*, neither were they people- or task-focused in certain circumstances, but they were people **and** task **and** team oriented. This suggests a shift away from a psychological perspective, away from behaviour and personality or other attributes towards an emphasis on observation of activity and its goal.

Typical of this approach was the 1970s action-centred leadership model of John Adair (1973)³³ who said an action-centred leader must:

- Direct the task (define, plan, allocate, control quality and rate, check performance and adjust)
- Support the people (attend to problems, praise, reward, recognise and develop)
- Co-ordinate and foster teamwork as a whole (maintain discipline, build team spirit, motivate, create sense of purpose, resource, communicate, develop)

Mintzberg (1973)³⁴, through observations of what managers do, identified ten key roles: interpersonal – figurehead, leader, liaison/information: monitor, disseminator, spokesperson/decisional: entrepreneur, disturbance handler, resource allocator, negotiator. Belbin³⁵ (in the late 1970s) identified nine roles and suggested that a role-balanced team perform better than an unbalanced one.

Old habits die hard, however, and the legacies of trait, style and contingency theories were still seen. The competency movement (Boyatzis, 1982)³⁶ provides a link between emerging thoughts on role with the previous work on trait, style and contingency. Boyatzis saw effective performance as requiring a consistent attainment of three factors: job demands, organisational environment and individual competence. Boyatzis sought to integrate Mintzberg's model into a concept of 'individual competence', defining the characteristics of managers that enabled them to perform successfully in a job. This definition included the dimensions of skills, individual characteristics and what were termed traits and motives. Later Boyatzis went on to identify competence as a dynamic interaction between components of job competency and levels of application.

The rise of leadership

The seventies also saw a debate gather momentum around the nature of leadership. Perhaps the turbulence of the time and the loss of faith in leadership created the desire to define it more clearly, to separate it from management and in so doing act as a philosophical clarion call. It can't be said that this debate originated from the 1970s as there were many previous references to the distinctions between management and leadership but it certainly gathered pace. In 1977 Zaleznik, writing in the *Harvard Business Review*³⁷, sparked renewed interest in whether they are different. And the debate went on for a long time. Zaleznik used the image of leader as an artist who uses

33 Adair, J. (1973) *Action Centred Leadership*. New York, McGraw-Hill

34 Mintzberg, H. (1973) *The Nature of Managerial Work* New York, Harper & Row

35 Belbin, M. (1981) *Management Teams*. London, Heinemann

36 Boyatzis, R.E. (1982) *The Competent Manager: A Model for Effective Performance.*, John Wiley and Sons

37 Zaleznik, A. (1977) Managers and leaders: Are they different? *Harvard Business Review*, May-June

creativity and intuition to navigate chaos whilst a manager is a problem solver dependent on rationality and control. Kotter also commented on the key differences³⁸:

Leadership isn't mystical and mysterious. It has nothing to do with having "charisma" or other exotic personality traits. It is not the province of a chosen few. Nor is leadership necessarily better than management or a replacement for it. Rather, leadership and management are two distinctive and complementary systems of action. Each has its own function and characteristic activities. Both are necessary for success in today's business environment. Management is about coping with complexity. Its practices and procedures are largely a response to the emergence of large, complex organizations in the twentieth century. Leadership, by contrast, is about coping with change. Part of the reason it has become so important in recent years is that the business world has become more competitive and more volatile. More change always demands more leadership. Most U.S. corporations today are over-managed and under-led.

And Bennis and Nanus 1985³⁹ came up with their well-known adage: "Managers are people who do things right and leaders are people who do the right thing".

In many ways this obsession with leadership might be seen as a response to a loss of leadership, a failure to define what works, and a growing uncertainty in the changing world of Mergers and Acquisitions, deregulation, new technology, international competition, rise of the East, the Common Market, and, in the UK at least, a declining competitive position. It might also be seen as a response to the 'me' decade of the 60s – the tension of individualism and common good and an obsession with the short term. Once again we had flipped back to the individual from the collective, back to the personal and consequently, back to the psychological.

Transformational leadership

With this desire to find the great and good, so leadership increasingly was imbued with the characteristics desired by the times. Leadership was seen to resonate with our own sense of how we would wish to be led and transformational leadership came to the fore. Burns (1978)⁴⁰ suggested that leadership needed to align with a collective purpose and the performance of leaders should be judged by their ability to make social change. He coined the concept of transactional and transformational leadership: 'Leadership is a relationship of mutual stimulation and elevation which converts followers into leaders and may convert leaders into moral agents'. The concept is built on humanistic psychology to assert that transformational leadership alters motives, values and goals of followers whereas a transactional leader looks to exchange one thing for another. The transformational approach dominated the 1980s. Bernard M. Bass (1985)⁴¹ built on Burns' Model and defined transformational leadership in terms of how the leader affects followers, who are intended to trust, admire and respect the transformational leader, increasing their awareness of task importance and value, getting them to focus first on team or organizational goals, rather than their own interests, and activating their higher-order needs.

Charisma was seen as a necessary, but not sufficient quality of a leader. Two key charismatic effects that transformational leaders achieve are to evoke strong emotions and to cause identification of the followers with the leader. This may be through stirring appeals. It may also occur through quieter methods such as coaching and mentoring.

38 Kotter, J.P. John P Kotter On what Leaders Really do. *Harvard Business Review*

39 Bennis, W. and Nanus, B. (1985) *Leaders: The strategies for taking charge*. New York, Harper & Row.

40 Burns, J.M. (1978) *Leadership*. New York, Harper & Row

41 Bass, B.M. (1985). *Leadership and Performance Beyond Expectations*. Free Press

One of the problems with charisma is that charismatic leadership has been criticised on a number of grounds⁴² including possible manipulation and a moral absence. In response Bass has suggested that authentic transformational leadership is grounded in moral foundations that are based on four components:

- Idealized influence
- Inspirational motivation
- Intellectual stimulation
- Individualized consideration

... and three moral aspects:

- The moral character of the leader
- The ethical values embedded in the leader's vision, articulation, and programme (which followers either embrace or reject)
- The morality of the processes of social ethical choice and action that leaders and followers engage in and collectively pursue.

Emotional Intelligence

It might be seen as a small jump from transformational leadership with its emphasis on motivating followers and engaging with them to Daniel Goleman's (1995)⁴³, emotional intelligence (EI). He suggested that emotional intelligence had five dimensions:

- Self-awareness
- Managing emotions (especially anger, anxiety and sadness)
- Motivating others
- Showing empathy (ability to read emotions in others)
- Staying connected – emotions are contagious and each interaction has an emotional impact

However, Antonakis (2004)⁴⁴ states that the claims made by EI proponents regarding the apparent necessity of EI for leadership or organisational performance are unsubstantiated, exaggerated, misrepresented, or simply false, and that the state of empirical evidence for the relationship between EI and leadership remains weak.

Authentic leadership

Continuing the emphasis on moral leadership, a significant emphasis in recent times has been on the role of individual leaders as authentic moral leaders. According to Gardner and Schermerhorn⁴⁵ (2004), the theory of authentic moral leadership derives from Luthans⁴⁶ work on positive organisational behaviour (POB) and Luthans and Avolio's⁴⁷

42 See for example Yukl, G, An evaluative Essay on Current Conceptions of Effective Leadership. *European Journal of Work and Organisational Psychology*, 8 (1)

43 Goleman, D. (1995) *Emotional intelligence*. New York, Bantam Books

44 Antonakis, J. (2004) On why "Emotional Intelligence" Will Not Predict leadership Intelligence Beyond IQ or the "Big Five": An Extension and Rejoinder, *Organizational Analysis*, 12 (2), pp.171-182.

45 Gardner, W.L. and Schermerhorn, J.R. Jr. (2004) Unleashing Individual Potential: Performance Gains through Positive Organizational Behaviour and Authentic Leadership, *Organizational Dynamics*, 33 (3), pp. 270-281.

46 Luthans, F. (2002a) Positive organizational behavior: Developing and managing psychological strengths. *Academy of Management Executive*, 16 (1), pp.57-72. Luthans, F. (2002b) The need for and meaning of positive organizational behavior. *Journal of Organizational Behavior*, 23, pp.695-706. Luthans, F. and Youssef, C.M. (2007a) Emerging positive organizational behavior. *Journal of Management*, 33, pp.321-349..

47 Avolio, B.J. and Kahai, S.S. (2003) Adding the E to e-leadership: How it may Impact Your Leadership. *Organizational Dynamics*, 31 (4), pp.325-338. Avolio, B.J. and Luthans, F. (2006) *High impact leader: Moments matter in authentic leadership development*. New York, McGraw-Hill.

work on “authentic leadership”. May, Chan, Hodges and Avolio⁴⁸ (2003), for example, describe “authentic leadership” as:

‘We chose the term to focus on what we consider to be the root concept underlying all positive approaches to leadership and its development. It is ultimately about the leader knowing him or her self, and being transparent in linking inner desires, expectations, and values to the way the leader behaves, in each and every interaction. What they say is exactly what they mean. Knowing oneself and being true to oneself are essential qualities of authentic leadership.’

Similarly, Goffee and Jones (2006)⁴⁹ argue that leadership demands the expression of an authentic self. People associate authenticity with sincerity, honesty and integrity.

Inevitably the interplay between the personal and the abstract and the individual and the collective would suggest that the focus on charisma would quickly be matched by a balancing concern for the impact of characteristics beyond the individual leader. So where are we now?

Devolved, collective leadership

There have indeed been some significant shifts in our thinking about leadership in more recent times towards the collective. These shifts, it has been argued, arise partly because we may be seeing a fundamental shift in the nature of work and therefore in the nature of leadership required:

‘With the shift to team-based knowledge work comes the need to question traditional models of leadership’ (Pearce, 2004).⁵⁰

Similarly ‘We are seeing traditional and hierarchical modes of leadership yielding to a different way of working – one based on teamwork and community, one that seeks to involve others in decision-making, one strongly based in ethical and caring behaviour. This emerging approach to leadership and service began with Robert Greenleaf with his concept of “servant leadership” (Spears, 2004).⁵¹ Spears suggests that the leader’s role is principally to encourage growth in others and emerges from those whose primary motivation is a deep desire to help others – putting serving others (including employees, customers and community) as the number one priority. Similarly, in several studies, leaders are referred to as ‘stewards’ of their organisation, conjuring the dictionary definition of steward as ‘a person morally responsible for the careful use of money, time, talents or other resources’ (Boltz Chapman).⁵² It has been suggested that leadership should be judged by the outcomes for others (Lorenzi, 2004)⁵³.

As a result there has been a focus on devolved leadership. Pearce (2004)⁵⁴ argues that high performing teams display more dispersed leadership patterns, ie shared leadership. Tasks that are highly interdependent, those that require creativity, and those that are highly complex call for shared leadership. The literature also suggests that a community of leaders can be developed and will be the key to sustainable performance. Raelin⁵⁵, for

48 May et al. (2003) Developing the Moral Component of Authentic Leadership. *Organizational Dynamics*, 32 (3), pp.247-260.

49 Goffee, R. and Jones, G. (2005) Managing Authenticity, The Paradox of Great Leadership. *Harvard Business Review*, December

50. Pearce C L. (2004) The Future of Leadership: Combining Vertical and Share Leadership to Transform Knowledge Work. *Academy of Management Executive*, 19 (1).

51 Spears, L.C. (2004) Practicing Servant-Leadership. *Leader to Leader*, Fall

52 Chapman, M.B. (2006) Higher Calling, Will Stewardship to your company bring better returns? *Editorial in Chain Leader*, January.

53 Lorenzi, P. (2004) Managing for the Good: Prosocial Leadership. *Organizational Dynamics*, 33 (3), pp.282-291.

54 Pearce, C.L. (2004) The future of leadership: combining vertical and shared leadership to transform knowledge work. *Academy of Management Executive*, 18

55 Raelin, J.A. (2005) We the Leaders: In Order to form a Leaderful Organization. *Journal of Leadership and Organizational Studies*, 12 (2)

instance, develops the concept of "leaderful practice" suggesting that whereas traditionally leadership has been thought of as serial, individual, controlling, and dispassionate, leaderful organisations see leadership as concurrent, collective, collaborative, and compassionate. Raelin argues that leaderful practice inspires genuineness among its community members so that they can bring their whole person to work; a concept with echoes of authentic leadership. This suggests that as leadership devolves so does the need for authenticity.

Ireland and Hitt⁵⁶ also argue that we need to move from one to the many, from the 'Great Leader' view of Strategic Leadership to the 'Great Groups' view as a more appropriate concept of strategic leadership in the 21st century. Such ideas challenge conventional orthodoxies about leadership. Lorenzi (2004), for instance, argues that leadership theories have generally focused on what people are like (personality or trait-based approaches), what leaders say (charismatic), what leaders do (style-based), and when leaders do it (contingency theories). Less has been studied or written concerning leader's specific, articulated and accepted aspirations and the social value or valence of these aspirations. More importantly, what and whose results matter more in the analysis – ie the leader's, the follower's, the public, or the organisation? For Lorenzi, a good leader places the concerns of followers and customers ahead of the leader's own interests – the good leader is prosocial.

Prosocial leadership is an evolutionary approach to achieving important social ends drawing on servant leadership, positive organisational behaviour, behavioural management, and organisational social learning and cognition. The leader's actions attend to the needs of a broader group ("social") rather than to limited personal interests. Lorenzi argues that "management" has been denigrated in the literature but good management is an essential part of prosocial leadership. For Lorenzi, while actions do speak loudly, results matter most. And the results that matter most are the resultant effects on the leader's customer, not the leader's organisation. A prosocial model or approach focuses on the positive outcomes of leadership instead of the positive personality characteristics of leaders and followers.

Conclusions

So where does this leave us with regard to leadership? We have sought to explore if leadership is of its time or if it is a reinvention of fundamental concepts that circle around each other over time. It would seem that it is a bit of both, aligned to its cultural and social context whilst showing signs of circling between the individual and the collective, the personal and the abstract. It would seem that social context provides the catalyst for evolving thinking – the need for efficiency at the beginning of the century, the rising interest in psychology in the 1920s and 1930s, the search for heroes in the 1970s and 1980s and now the interest in devolved leadership. These suggest shifts in emphasis which then ossify into a paradigm within which the dualism of individual and collective perspectives play out. This strongly suggests that we will never absolutely understand what effective leadership is because, as a social concept, it is dependent on its social setting.

⁵⁶ Ireland, D.R. and Hitt, M.A. (1999) Achieving and Maintaining Strategic Competitiveness in the 21st century: The Role of authentic Leadership. *Academy of Management Executive*, 13.

Leadership and Performance

So having got not very far with respect to what is leadership and finding it embedded and contextual, what then of the link between leadership and performance? Here we are on firmer ground.

UK managers

Managers are a critically important group of staff when it comes to looking at the link between skills and performance and there is evidence that they are both part of the problem and part of the solution. One of the reasons highlighted for the performance shortfall with the UK is believed to be a function of a skills deficit amongst UK managers. Porter and Ketels (2003)⁵⁷ question that the quality of UK management is the most important determinant of economic performance but also goes on to note that UK firms are often slow to adopt modern management practices such as Total Quality Management, and even once they are implemented, they then achieve lower returns than other countries. Such a situation may be explained by a skill deficiency and by the inadequacy of management training. More detailed evidence from other studies reinforces the view that there may be qualitative shortfalls in management skills; for example, some recent surveys on perceptions of management quality have found high levels of dissatisfaction with the quality of leadership within organisations as judged by other managers.⁵⁸ Keep and Westwood (2003)⁵⁹ use wider business arguments, for example, the low business gains from business process re-engineering programmes and mergers, to argue that there is a lack of managerial skill. They also point out these failures are by no means unique to the UK.

Critical role of managers in organisational performance

Other studies have critically emphasised the important role played by managers in achieving productivity and performance improvements within high performance work systems. The decisions and actions managers take are undoubtedly vital to the nature of working practices in place, the organisational structure and strategies, the degree of innovation and R&D, the organisation and management of the workforce and the mix of skills demanded, and hence the overall success of the business. Studies have shown that firms with a more qualified management workforce and a dedicated programme of management development pursue more sophisticated and higher quality market strategies and achieve greater profits. For example Bosworth (1999) found a positive relationship between the employment of professional scientists and engineers within the company and at board level, and business performance⁶⁰. Other studies have also found a link between the skill levels of senior managers and business performance. Those employing senior managers with degree level qualifications outperformed those who did not (with greatest benefits where the manager possessed an accountancy qualification).

'The performance gap between the unqualified and qualified is so stark that this factor alone may go a long way to explain the poor performance of British industry when compared with American, French or German industry. The more so when we recall that until 50 years ago few British TEs (Top Executive) had

57 Porter, M.E. and Ketels, C.H.M (2003) *UK Competitiveness: Moving to the Next Stage*. DTI economics, paper No. 3

58 Horne, M. and Stedman Jones, D. (2001) *Leadership the Challenge for All? The Institute of Management*. Charlesworth, K.,

Cook, P. and Crozier, G. (2003) *Leading Changing in the Public Sector: Making the Difference*. *Chartered Management Institute*

59 Keep, E. and Westwood, A. (2003) *Can the UK Learn to Manage?* The Work Foundation.

60 Bosworth, D. (1999) *Empirical Evidence of Management Skills in the UK* Skills Task Force Research Paper 18, DfEE

academic qualifications of any kind, whereas French and German TEs have been outstandingly well qualified certainly since the 19th century.' (Barry, quoted in Bosworth, 1999)

This finding is also supported by Woods (1992)⁶¹ who suggested that organisations managed by Chief Executives with a degree outperform those without, regardless of the degree discipline.

Cockerill (1993)⁶² tried to link management capability with organisational performance using a framework of seven competencies and found that six of the selected competencies were positively related to measures of organisation performance. Overall, the competence of a manager explained about 15% of unit performance in dynamic, but not stable, environments.

A growing area of interest is the crucial role of the manager in motivating staff. Rucci et al (1998)⁶³ analysed data from 800 stores in the Sears retail group in the US. The data covered business information, customer and employee attitudes. Causal pathway modelling was used to unpick the cause and effect relationships linking employee attitudes, customer attitudes and business results. Employee attitudes towards the job and attitudes towards the employer both emerged as key factors associated with customer attitudes and, in turn, with business results. The line manager emerged as a key link in this chain through a critical item '*how does the way you are treated by those who supervise you influence your overall attitude about your job?*'. Barber et al (1999)⁶⁴ conducted a similar study with nearly 100 stores of a major UK retailer. The data collected spanned 65,000 employees and 25,000 customers. Employee satisfaction and employee commitment were related to sales increases. There were also more indirect links to sales through improved staff attendance and increased customer loyalty (linked with customer service). The quality of line management as perceived by staff emerged as an important link in this value chain via its impact on employee commitment. Most recently, Purcell et al (2003)⁶⁵ and Purcell and Hutchinson (2007)⁶⁶ have used an in-depth case study approach to try and shed light on the HRM-performance link in the UK. The case studies in a retail organisation show a strong association between employee attitudes, employee views on the quality of HR management applied to them, and store performance. The study also showed that the number and extent of HR practices was less important than the effectiveness of their implementation. These studies tend to support the view of managers as motivators of staff who, in turn, produce better business results. Further evidence of the quality of relationships at work comes from work on the impact of line managers.

In a cross national study of European managers (Tamkin and Mabey, 2006)⁶⁷, relationships were found between management development activity and perceived organisational performance. In particular the study emphasised the importance of strategic fit (the degree to which a strategic stance is taken by HR), organisational fit (the extent to which the organisation takes responsibility, sets criteria and takes a long term view) and perceived congruence (the fit between what organisations promise in terms of management development and managers' first hand experience of such policies

61 Woods, W.J. (1992) Who is Running British Manufacturing? *Industrial Management and Data Systems*, 92

62 Cockerill, A.P. (1993) *Validation Study into the High Performance Managerial Competencies*. London Business School

63 Rucci, A.J., Kirm, S. P. and Quinn, R.T. (1998) op.cit.

64 Barber, L., Hayday, S. and Bevan, S. (1999) op.cit.

65 Purcell, J., Kinnie, N., Hutchinson, S., Rayton, B. and Swart, J. (2003) *Understanding the People and Performance Link: Unlocking the Black Box* London, CIPD

66 Purcell and Hutchinson (2007) Front line managers as agents in the HRM-performance causal chain: theory, analysis and evidence. *Human Resources Journal*, 17 (1)

67 Tamkin, P., Mabey, C. and Beech, D. (2006) *The Comparative Capability of UK Managers*. SSDA Research Report 17

and activities). These relationships were much greater than the links between the amount of development and the diversity of development practices and performance.

Management Practice

Some of the most recent research on management and leadership has focused on the impact of management practice. Bloom et al (2006, 2007) surveyed management practice in over 700 medium sized manufacturing firms in the US, France, Germany and the UK. Their study deliberately attempted to explore productivity differences and the role of the fixed effects of "managerial quality". They note that whilst considerable attention is placed on management quality by many disciplines, economists have until recently had relatively little to say about management practices *per se*. A major problem has been the absence of good quality data on managerial practices that is measured in a consistent way across countries and firms. They collected data on firms' practices from initially 730 medium sized manufacturing firms in the US, UK, France and Germany.

These practices can be grouped into four areas: operations (3 practices), monitoring (5 practices), targets (5 practices) and incentives (5 practices). The operations management section focuses on the introduction of lean manufacturing techniques, the documentation of processes improvements and the rationale behind introductions of improvements. The monitoring section focuses on the tracking of performance of individuals, reviewing performance (eg through regular appraisals and job plans), and consequence management (eg making sure that plans are kept and appropriate sanctions and rewards are in place). The targets section examines the type of targets (whether goals are simply financial or operational or more holistic), the realism of the targets (stretching, unrealistic or non-binding), the transparency of targets (simple or complex) and the range and interconnection of targets (eg whether they are given consistently throughout the organization). Finally, the incentives section includes promotion criteria (eg purely tenure based or including an element linked to individual performance), pay and bonuses, and fixing or firing bad performers, where best practice is deemed the approach that gives strong rewards for those with both ability and effort. Some of the questions focus specifically on the management of human capital and it is these that have greatest similarities with those used in studies on HRM practices.

People Management Practices Measured

People management area	Questions asked
Managing human capital	Do senior managers discuss attracting and developing talented people?
	Do senior managers get any rewards for bringing in and keeping talented people in the company?
	Can you tell me about the talented people you have developed within your team? Did you get any rewards for this?
Rewarding high-performance	How does your appraisal system work? Tell me about the most recent round?
	How does the bonus system work?
	Are there any non-financial rewards for top-performers?
	How does your reward system compare to your competitors?
Removing poor performers	If you had a worker who could not do his/her job what would you do? Could you give me a recent example?
	How long would underperformance be tolerated
	Do you find any workers who lead a sort of charmed life? Do some individuals always just manage to avoid being fixed/fired?
Promoting high performers	Can you rise up the company rapidly if you are really good? Are there any examples you can think of?

	What about poor performers – do they get promoted more slowly? Are there any examples you can think of?
	How would you identify and develop (ie train) your star performers?
	If two people both joined the company 5 years ago and one was much better than the other would he/she be promoted faster?
Attracting human capital	What makes it distinctive to work at your company as opposed to your competitors?
	If you were trying to sell your firm to me how would you do this (get them to try to do this)?
	What don't people like about working in your firm?
Retaining human capital	If you had a star performer who wanted to leave what would the company do?
	Could you give me an example of a star performer being persuaded to stay after wanting to leave?
	Could you give me an example of a star performer who left the company without anyone trying to keep them?

Source: *Measuring and Explaining Management Practices. Across Firms and Countries.* Nick Bloom and John Van Reenen. February 2006 ⁶⁸

By matching information on management practice with firms accounts, the researchers were able to address the association between managerial practices and firm performance. They found that measures of managerial practice were strongly associated with a range of performance measures (productivity, profitability, sales growth and survival rates). There were also significant differences by country, with US firms tending to demonstrate better management practices than European firms. Poor practices were associated with low levels of competition and *primogeniture* family firms (where control passes to the eldest son) which accounted for about half of the long tail of badly managed firms and up to two thirds of the American advantage over Europe in management practices.⁶⁹ More recent work⁷⁰ has expanded the sample to around 4000 organisations in the US, Asia and Europe. Improving management practice was associated with large increases in productivity and output. Controlling for country, sector and skill level, across all the firms in the research, a single point improvement in management practice score was associated with the same increase in output as a 25% increase in the labour force or a 65% increase in invested capital. MNCs tended to do better (and to have a positive influence on other firms in their region) and this second study confirmed the negative impact of family firm ownership on performance.

Human capital also seems to be important. The availability of skilled people, both in management and among the workforce in general, also differentiated between better managed firms and the rest. Comparing top scoring and low scoring firms, 84% of managers in the highest scoring firms were educated to degree level or higher, as were a quarter of the non-management work force compared to only 53% of managers and only 5% of the wider workforce in the lowest scoring firms. Given the positive relationship between good management and performance the long tail of poorly managed firms suggests a lack of awareness by firms. Some insight into this was provided by the finding that self-assessed quality of management had no relationship with the management practice score assigned by the researchers regardless of region or firm performance. This suggests that firms have a poor understanding of how their own practice relates to accepted practice although the authors also conjecture that the

68 <http://cep.lse.ac.uk/textonly/people/bloom/papers/BloomVanReenen2.pdf>

69 Bloom, N. and Van Reenen, J. (2006) *Measuring and Explaining Management Practices, Across Firms and Countries.* CEP Discussion Paper No 716, March

70 Bloom, N., Dorgan, S., Dowdy, J. and Van Reenen, J. (2007) *Management Practice & Productivity: Why they matter.*

positive effect of high levels of competition may suggest good practices spread quickly in competitive environments. They also posit that poor practice is more likely to be eliminated where competition is higher through firm failure.

People management practices

This wider exploration of the quality of management practices is preceded by a significant literature on the impact of people management practice. In the late 1990s and early 2000s there was considerable research activity attempting to link HR practices to firm performance. The general thrust of such work was to find positive associations between an array of practices (a variable mix) and various measures of firm performance (see, for example, Huselid⁷¹). And although the quality of the evidence base has been criticised (eg Wall and Wood, 2005)⁷² the consistency, breadth and depth of findings is remarkable.

More recent research has moved away from purely seeking to evidence a link towards explaining how the link operates. There have been various strands to this:

- Alignment and fit
- Involvement
- Commitment and climate

Alignment and fit

Part of the debate⁷³ around SHRM has been on the ways in which HRM can align itself appropriately. One interpretation is to consider alignment with the various alternative strategic approaches of the firm (for example Miles and Snow's (1978) focus on prospectors, analysers or defenders, or Porter's (1980) typology of competitive strategy into cost, differentiation, focus and stuck in the middle strategies). Such alignment of HRM approaches to strategy have been referred to as 'vertical alignment'. Others have stressed the need for a focus on the ways in which the different HR sub-systems should work together coherently which has been termed 'horizontal alignment'. Thirdly an emphasis on eliciting the right kinds of behaviours from employees is termed the 'role behaviour perspective' proposed by Jackson and Schuler (1987, 1989)⁷⁴ which highlights that HR practices need to elicit behaviours that are contextually aligned.

Purcell⁷⁵ argues that competitive strategy is too crude an instrument to explain HRM policy and practice. Within-company studies find differences even though strategy is a constant and firms face various markets with various degrees of diversification; therefore it is difficult to understand which should predominate in HR alignment terms.

There has been some support for vertical alignment; eg Michie and Sheehan (2005)⁷⁶ explore the link between HRM and performance, deliberately testing universal and contingency models. Using telephone interviews in a sample of 362 organisations, and

71 http://www.markhuselid.com/pdfs/articles/2003_SHRM_Empirical_Studies_Summary_95-03.pdf

72 Wall, T.D. and Wood, S. J. (2005) *The Romance of HRM and Business Performance, and the Case for Big Science*. Sheffield, Institute of Work Psychology

73 See for example Allen, M.R. and Wright, P.M. (2006) *Strategic Management and HRM*, Cornell university Working Paper Series, 06-04

74 Schuler, R.S. and Jackson, S.E. (1987) *Linking competitive strategy with human resource management practices*. In: *Academy of Management Executive*, 3, pp.207-219. Schuler, R.S and Jackson, S.E (1989) Determinants of human resource priorities and implications for industrial relations. *Journal of Management*, 15

75 Purcell, J. (2005) *Business strategies and human resource management: uneasy bedfellows or strategic partners*. Working Paper Series, University of Bath

76 Michie, J. and Sheehan, M. (2005) Business strategy, human resources, labour market flexibility and competitive advantage. *International Journal of Human*

controlling for establishment size, age, sector (manufacturing versus services), trade union recognition and whether UK or foreign owned, they find positive relationships between HR policies and practices and performance, both individually and when practices were combined into an index in support of a universalistic model. They also find support for a contingent model. For quality enhancer and innovator firms the impact of HRM is significant but not so for cost reducer firms. Datta et al (2003)⁷⁷ similarly find some support for greater impact of HRM in low capital intensity and high differentiation firms, but others have found only limited support, eg Paauwe and Boselie (2005)⁷⁸. They reference Boxall and Purcell (2003) who argued that both best practice and best fit approaches may be right in their own way. Some practices are universally successful, eg development, involvement, etc, but others may be context dependent. So whilst the concept of vertical fit is compelling, it has not received universal empirical support. This has led to debate about why this might be: too great a focus on HR practices rather than outcomes such as behaviours or skills (Wright, 1998⁷⁹), negative effect of a lack of flexibility caused by tight fit (Allen and Wright, 2006⁸⁰), the realities of complex environments and multiple strategies making HRM fit unlikely, the need for more sophisticated models of fit (Boxall and Purcell, 2003⁸¹), and ineffective research methods or an inability to spot and measure the correct contingencies (Allen and Wright, 2006).

Involvement

Bowen and Ostroff (2004)⁸² theorised that HRM systems influence employee attitudes and behaviour as well as organisational performance, through employee interpretations of the work climate. They note that employee culture can act as an antecedent to the HRM system and as a mediator of its linkage to firm performance. Culture can be seen as the way in which formal and informal organisational policies practices and procedures are perceived. Gerhart (2005) calls for a new perspective in the field. He refers to the work of Fulmer et al (2003) who used the '100 best companies to work for in America' list to track performance over time. Attitudinal survey data on these organisations provides information on credibility, respect, fairness, pride and camaraderie. Gerhart notes that in this case employee relations are defined by employees' perceptions, not by the proportion of employees covered by specific HR practices.

Others have explored the mechanisms by which employees' aims are aligned with those of the organisation. A study by Michie and Sheehan (1999⁸³) found the use of participatory practices was positively correlated with the probability of the firm innovating. They suggest that in combination with other human resource practices, employee participation can have a positive impact on outcomes. Recent research⁸⁴ found that 'fair shares capitalism' was linked to productivity across three different measures – perceptual, sales per employee and value added per employee but that the relationships were complex. Positive links were found between profit related pay and group payment by results schemes with financial performance but only when combined with share

77 Datta, D.K., Guthrie, J.P. and Wright, P.M. (2003) *HRM and Firm Productivity: does Industry Matter?* Working Paper 03-02 Centre for Advanced Human Resources Studies, Cornell University

78 Paauwe J, Bosalie P (2005) HRM and Performance: What next? , *Human Resource Management Journal*, Vol 15, Issue 4

79 Wright, P.M. (1998) Strategy - HR Fit: Does It Really Matter? *Human Resource Planning*, 21,

80 Allen, M.R. and Wright, P.M. (2006) *Strategic management and HRM (CAHRS Working Paper #06-04)*. Ithaca, New York: Cornell University, School of Industrial and Labor Relations, Center for Advanced Human Resource Studies.

<http://digitalcommons.ilr.cornell.edu/cahrswp/404/>

81 Boxall, P. and Purcell, J. (2003) *Strategy and Human Resource Management*, London, Palgrave Macmillan

82 Bowen, D.E. and Ostroff, C. (2004) Understanding HRM – Firm Performance Linkages: The Role of the 'Strength' of the HRM System. *Academy of Management Review*, 29

83 Michie, J. and Sheehan, M. (1999). HRM Practices, R&D Expenditure and Innovative Investment: Evidence from the UK's 1990 Workplace Industrial Relations Survey. *Industrial and Corporate Change*, 8

84 Freeman, R. (2007) *Doing the right thing: does fair share capitalism improve workplace performance*, Bryson A, INCOMPLETE REFERENCE or running into next one. Please check

ownership. Each individually had negative effects. Generally individual PBR or merit pay or performance pay were not linked. The links were much stronger where employees had greater autonomy in decision making and strongest results where all employees were covered by such FSC schemes, if just the managers were involved; the schemes had no effect on productivity.

Commitment and climate

The relationship between job satisfaction and performance has been tested in various ways, often at the micro level of individual performance. Harter et al (2002) conducted a meta-analysis of studies conducted by Gallup and found significant correlations between satisfaction and engagement and business outcomes such as productivity and profitability. The size of the relationship was substantial and implied that businesses in the top quartile had on average between \$80,000 and \$120,000 higher monthly revenue/sales.

The complexity of the relationship between HR practices and performance is attracting increasing interest with employee attitudes and behaviours seen as an intervening variable. Bowen and Ostroff (2004) have suggested that employees' perceptions of HR practices are likely to precede attitudes and performance. This has been tested by Nishii, Lepak and Schneider (2007)⁸⁵ who explored how employee commitment relates to attributions employees make about intent of HR practices. Positive attributions (quality and employee well being) were positively associated with attitudes, whilst negative attributions (around cost reduction and exploitation) were negatively associated with attitudes. Attitudes are in turn associated with citizenship behaviours and with customer satisfaction. Similar findings were found previously in exploring the link between employee attitudes and business performance (eg Barber et al, 1999⁸⁶).

In a study which questioned the normal assumptions regarding the direction of influence, Schneider et al (2003)⁸⁷ used time lagged analysis to explore the relationships between financial performance and various measures of satisfaction (empowerment, fulfilment, pay etc plus overall job satisfaction). The researchers found significant and consistent relationships between attitudes around security, pay and job with financial measures but the direction was sometimes unexpected, with overall job satisfaction and satisfaction with security more strongly affected by market and financial performance than was the reverse. Satisfaction with pay appeared to be more reciprocal.

Family ownership

The issue of family ownership and the impact on firm performance has been the subject of a number of studies. Adams et al (2008)⁸⁸ refer to a wide range of other work eg they refer to the work of Anderson and Reeb (2003) providing evidence that family firms have higher market valuations and better accounting performance than non-family firms. Other studies they mention (Fahlenbrach, 2006; Palia et al, 2007; Villalonga and Amit, 2006) find positive effects of founder control on performance. Pérez-González, 2002⁸⁹ shows evidence that inherited control by a family member is bad for performance.

85 Nishii, L.H. Lepak, D.P. and Schneider, B. (2007) *Employee Attitudes of the 'Why' of HR Practices: Their Effects on Employee Attitudes and Behaviours, and Customer Satisfaction*, ILR Collection, Working Papers

86 Barber, L, Hayday, S. and Bevan, S (1999) *From people to profits. Institute for Employment Studies Report*. Brighton, Institute for Employment Studies

87 Schneider, B., Hanges, P.J., Brent Smith, D. and Salvaggio, A.N. (2003) Which Comes First: Employee Attitudes or Organizational Financial and Market Performance? *Journal of Applied Psychology*

88 Adams, R.B., Almeida, H. and Ferreira, D. (2008) *Understanding the Relationship Between Founder CEOs and Firm Performance* www.mbs.ac.uk/research/analysisinvestment/documents/founderceoFeb2008.pdf

89 Pérez-González, F. (2006) Inherited Control and Firm Performance. *American Economic Review*, 96

Morck, Strangeland and Yeung (1998)⁹⁰ also find a negative correlation between heir control in Canadian firms and firm performance both studies supporting the findings of the Bloom et al management practice studies. Adams et al themselves find a residual positive correlation between founder-CEO status and firm performance. This finding suggests that there is a positive causal link from founder-CEOs to firm performance and that past superior accounting performance increases the likelihood that founder-CEOs will step out. They show that among all family firms, those with founder-CEOs are the only ones to have consistently higher performance than other firms. These findings raise the possibility that the higher performance of family firms found in some literature is driven mostly by firms where the current CEO is a founder.

The individual leader

The dominant finding of a number of studies is that senior leadership matters because it has an important influence on corporate behaviour and performance. Bertrand and Schoar 2003⁹¹ explore the impact of managers on firms using a matched manager firm data set, tracking managers across US firms and observing performance over time (1969–1999). This allowed them to estimate how much of the unexplained variation in firm practices can be attributed to manager fixed effects, after controlling for firm-fixed effects and time-varying firm characteristics. They explored four corporate variables: investment policy, financial policy, organisational strategy and performance. Their research suggests that managers' fixed effects are empirically important determinants of a range of corporate variables. Managers that engage in more external acquisitions and diversification also display lower levels of capital expenditures and R&D. Management style appears to be a consistent variable across firms and time and the timing of observed changes in corporate policy suggests it is the active influence of managers on corporate decisions that is important rather than their more passive association with particular circumstances. They found that older generations of CEOs tended to be more conservative whilst those holding MBA qualifications more aggressive. The results provide evidence that top managers vary considerably in their management styles and impact on company fortunes. The size of the manager fixed effects is economically large – a manager in the top quartile increases the rate of return on assets by about 3% whilst a manager in the bottom quartile reduces the rate of return by about the same amount.

A study comparing productivity levels of US and Japanese car manufacturers (Lieberman et al, 1990⁹²) found productivity improvement was strongly positively correlated with top managerial succession. The importance of top level succession has also been commented on by others: Huson, Malatesta and Parrino (2004)⁹³, for example, report that measures of performance relative to other firms deteriorate prior to turnover, and improve subsequently. Relative performance improvements are greater when successor CEOs are hired from outside the firm than when they are insiders.

These findings are supported by other research which suggests that individual managers are economically significant. Chevalier and Ellison (1999⁹⁴), in a US study explored the relationship between fund performance and manager characteristics in a cross sectional analysis. They find that better performance is associated with those fund managers with

90 Morck, R., Strangeland, D. and Yeung, B. (1998) *Inherited Wealth, Corporate Control and Economic Growth: a Canadian Disease?* NBER Working paper, no. 6814.

91 Bertrand, M. and Schoar, A. (2003) *Managing with Style: The Effect of Managers on Firm Policies.* *Quarterly Journal of Economics*, MIT Press

92 Lieberman, M.B., Lau, L.J. and Williams, M.D. (1990) Firm-Level Productivity and Management Influence: A Comparison of US and Japanese Automobile Producers. *Management Science*, 36 (10)

93 Huson, M., Malatesta, P. and Parrino, R. (2004) Managerial Succession and Firm Performance. *Journal of Financial Economics*, 74

94 Chevalier, J. and Ellison, G. (1999) Are Some Mutual Fund Managers Better Than Others? Cross-Sectional Patterns in Behaviour and Performance, *The Journal of Finance*, LIV (3)

MBA's, who are younger, and those who attended better performing colleges. Malmendier and Tate (2005) find financial investment is significantly more responsive to cash flow if the CEO displays overconfidence. CEOs with a finance background, however, invest more on average, and are less sensitive to cash flow in choosing the level of investment. Bebchuk, Cremers and Peyer (2008),⁹⁵ show that CEO centrality (measured by the proportion of pay commanded by the CEO) is not necessarily a good thing and is correlated with relatively poor organisational performance. In an attempt to measure the size of the impact CEOs can have on company performance Wasserman, Nohria and Anand (2001)⁹⁶ suggest that, in some circumstances (where opportunities are scarce or the leader has slack resources), the leader accounts for up to 40% of the difference in organisational performance.

The impact of management education and learning

If leadership makes a difference and leadership quality is something that is an acquired skill that can be developed, we might also expect that management education and development is associated with better performing managers and organisational performance.

The evidence is light and what there is somewhat mixed. On the one hand there has been much made of the relative under-education of UK managers and the possible link to lower levels of UK management capability. We have already mentioned the work of Bosworth (Bosworth, D., 1999) and Woods (Woods, W.J., 1992) who both suggested that more highly qualified managers were associated with better performing firms, and the work on management practices which also found a link between the human capital of managers and performance. Other positive evidence comes from Mabey and Gooderham (2005)⁹⁷ who suggested that the strategic and organisational fit of management development is related to organisational performance measures. A review of the literature on the impact of management development activity⁹⁸ found relatively few studies which had specifically sought to measure impact on organisations – see box below:

Management development and organisational performance

- A management-training programme provided by British Telecom was claimed to have saved the company £270 million. This figure was an estimate made by managers of the value of errors made by untrained junior managers, and waste caused by missed deadlines, customer complaints, etc. Performance improvements were examined following each training course (Lee, Coaley and Beard, 1993).

95 Bebchuk, L.A., Cremers, M. and Peyer, U (2008) *CEO centrality*. Harvard Law and Economics Paper, No 601

96 Wasserman, N., Nohria, N. and Anand, B.N. (2001) *When does leadership matter? The contingent opportunities view of CEO leadership*. Strategy Unit Working Paper No 02-04, Harvard Business School Working Paper No 01-063

97 Mabey, C. and Gooderham, P.N. (2005) The impact of management development on perceptions of organizational performance in European firms. *European Management Review*, 2 (2)

98 Burgoyne, J., Hirsh, W. and Williams, S. (2004) *The Development of Management and Leadership*

Capability and its Contribution to Performance: The evidence, the prospects and the research need. DfES Research Report 560, London DfES

- Winterton and Winterton (1996), in an in-depth analysis of 16 UK organisations, looked at the impact of competence-based management development activity on performance. They found a statistically significant relationship between competence-based HRD systems and business performance, especially where the management development activity was linked to business strategy. Although a frequently quoted example, this was a comparatively small-scale study.
- DTZ (1998) examined 127 firms that were using TEC (Training and Enterprise Council) related management development activity. 63% of firms could identify an impact of this development on business performance. The types of impact most often mentioned by respondents were: improved morale of staff, an improved response and greater flexibility shown by managers, and improvements in quality, leading in turn to greater customer loyalty or new business. Indirect impacts were identified to be: an improved management style, better tracking of projects and evaluation of their worth to the firm, and greater understanding of the value of training and human resource development in general. Only 18% of firms felt they could identify 'definite and direct' business impact, and fewer than 9% could quantify this impact. Of the 11 firms that felt able to provide a monetary estimate of the impact of training, nine were involved in the Investors in People process.
- Fox and McLeay (1991) examined the recruitment and selection, management development, performance appraisal, rewards and recognition, and career planning processes of 49 UK companies operating in the engineering and electronics sectors. The team were careful to distinguish intent (HRM systems), practice (the reality of how staff are recruited, promoted, rewarded and developed) and the internal coherence of such activities. They found a clear positive relationship between financial performance and the degree of integration between corporate strategy and the human resource management functions in practice. So it was the implementation of HR that was the important variable, rather than the supposed systems.
- In a UK study of management training which secured the views of both HRD managers and MBA managers participating in training activities (Mabey and Thomson, 2000), it was found that positive outcomes of management development investment, whether measured by perceived success in achieving objectives, perceived organisational impact or personal satisfaction, could largely be attributed to the way an organisation made its policy choices concerning the setting up and running of management training and development processes. Particularly important in this regard was the commitment given by the company to training activity. Policy statements, high priority, centralised management development systems, and responsibility for management development emerged as the key elements of this visible corporate commitment.
- Thompson (2000) found that company performance in over 600 aerospace establishments was not related at all to total management development spend, but high performing firms spent more of their management development budget on people management skills (27% of spend) than low performing firms (9% of their spend).
- Mabey and Ramirez (2003) have led an EC funded research project analyzing management development in six European countries. Interviews were conducted with the HRD manager and a line manager in 600 private sector organisations. Findings indicate that 25% of variance in organisational performance is explained by three factors: a strategic approach to HRM, a long-term, proactive and strategic approach to management development and, on the part of line managers, a belief that their employer takes management development seriously. These results hold true, irrespective of country, size, sector and growth. Interestingly, neither the presence of management development systems/procedures, nor the amount and diversity of management training activities enhance performance to a significant effect (Mabey and Gooderham, 2003). This study used a seven-item measure of performance, benchmarked by

sector, a mean score of that reported by HRD and line managers. A further analysis on a sub sample of 180 companies where financial data was available (from the Amadeus database) discovered that where line managers reported positively on their employer's management development strategy, this explained a modest but significant amount of variance (15%) in firm productivity.

Leadership development and organisational performance

- Barling et al (1996) conducted a study on the effects of transformational leadership training in one region of a large Canadian bank. The study was small but noteworthy for its stringent design. This took pre- and post-training ratings and compared those receiving training (one day, plus four booster sessions at monthly intervals) with a matched sample of managers who did not. Significantly positive impacts were found for those participating in the training when measured by subordinate perceptions of their leadership, subordinate ratings of their own organisational commitment and two aspects of branch level financial performance.
- In a study of the state of leadership in UK organisations, Horne and Stedman Jones (2001) concluded that where systematic implementation of leadership development did exist, this related strongly to the perceived quality of leadership in that organisation and organisational performance. The latter was measured by self-reported estimation of financial turnover during the past three years. The leadership development methods perceived as most effective were found to be formal mentoring, project management and 360 degree feedback.

Hirsh, Williams and Burgoyne (2002) assemble evidence on the value of business and management education to individuals and employers. They refer to the IER/Purcell large cohort studies of UK graduates (Purcell et al, 1996 and 1999; IER, 1999) in all subjects which show that, on the whole, business studies graduates have relatively high levels of employment compared to other disciplines and average earnings. Given the relatively lower level of average entry qualifications of the overall undergraduate intake into business schools, these suggest good results. Business Studies had a 'significant earnings premium' compared with other subjects after taking entry qualifications into account. This was also the case for degrees in mathematics, computing, engineering and medicine (IER, 1999). The smaller scale but more recent CEL surveys of graduates (2002) suggest slightly less beneficial results with average employment rates, slightly less likelihood of being in a traditional graduate job after three years but slightly more likely to be in a supervisory role. Both in the short and longer term, management studies graduates earned similar salaries to the sample overall. For all the employment outcomes, those with poorer entry qualifications do much less well, and this gap widens over the three year period. Management studies students in this sample had significantly weaker entry qualifications than the overall sample.

Hirsh et al note mixed findings with regard to the benefits of MBA qualifications. AMBA surveys (eg Thomson et al, 1998; AMBA, 2000) show positive career benefits of MBA study, although the pay benefit varies according to institution and mode of study. This finding is supported by others eg Baruch and Peiperl (2000) found that only those who had attended a 'top' Business School had higher salaries.

More recent commentary has been relatively negative over the impact of MBA level education, suggesting that it is ineffectual at developing senior leaders. This critique of the MBA has a long history – it was in 1989 that Harold Leavitt asserted 'we have built a weird almost unimaginable design for MBA level education ... [that distorts those

subjected to it into] ... critters with lopsided brains, icy hearts and shrunken souls⁹⁹. Other critics have included Mintzberg and Gosling¹⁰⁰. Pfeffer and Fong (2002) note that there is limited evidence that MBA graduates perform better than their non-MBA peers. They suggest that this may be in part a function of the almost zero failure rate, a lack of emphasis on leadership capability, failure to teach what is currently important, and too little learning by doing. Recent high profile company failures such as Enron and financial institutions have also served to focus attention on the value of MBAs given the high proportion of graduates in affected organisations.¹⁰¹

Conclusion

Overall these findings strongly suggest that managers and leaders matter. Individually and collectively, they affect performance. There is growing evidence that the way in which operations, organisational performance, quality, etc are overviewed and what action is taken as a result makes a difference to the efficiency and effectiveness of the organisation. There is also a wealth of evidence that suggests how managers and leaders manage the human capital of the organisation has considerable impact. A coherent set of people management practices, consistently applied, and an employee relations climate that favours autonomy, which recognises contribution, and which also generates trust are related to organisational performance. However, our empirical understanding of how managers and leaders exert impact within organisations is much less clear. We have evidence that their behaviour makes a difference but what that means for management and leadership development, what it means for the skills of managers and leaders, what differentiates an effective from a less effective leader is much less certain. It might also be said that attempts to explore what management and leadership *is* have consistently shown that what we do know is heavily coloured by our social context and proves elusive to clear scrutiny.

This suggests particular challenges for education in the development of managers. There is evidence that managerial or leadership capabilities are enhanced by degree level education and yet, that which is focused on managers – business degrees and the MBA, may not have as much impact as we might like. There is also evidence that the brightest do not choose business degrees as their first choice. Leadership and management capabilities clearly are more than the sum of the parts that mode one knowledge provides. What is valued would seem to be the meta skills of analysis, of appraisal and judgement. The social nature of leadership would seem to favour methods of education that emphasise team working and team outcomes, that explore failure and the lessons that can be learnt, as well as successes. Should education aspire to 'teach' leadership or to provide the opportunity for leadership skills to be enhanced and developed?

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99 Pfeffer, J. and Fong, C.T. (2002) The success of Business Schools: Less Success than Meets the Eye. *Academy of Management Learning and Education*, 1 (1)

100 Mintzberg, H. and Gosling, R. (2002) Reality Programming for MBAs. *Strategy and Business*, 26 (1)

101 Caulkin, S. (2006) *Enron: A Master Class in Hubris and Raging Greed* The Observer Sunday May 7th; Professor Ken Starkey (2008) *Lessons to be Learned from Financial Markets Chaos*. The Guardian, Saturday October 18th