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ABSTRACT

Leadership has always been and still is a subject of research which is progressively regaining attention from different disciplines. Relevant contributions from psychology, economics, and sociology have generated a voluminous literature on the topic. The structure of this essay is divided in two parts. In the first part, major theories of leadership are evaluated while, in the second part, one economic approaches of leadership (entrepreneurship) is presented more in detail. In the light of this economic perspective the thesis also discusses cultural differences and their effect on the perception of leadership. A comparison between the western and non-western culture of leadership is sketched in the final part.

Keywords: Theories of Leadership, entrepreneurship, cultural effects.

Zusammenfassung

“Leadership”-Konzepte finden in jüngerer Zeit wieder verstärkte Aufmerksamkeit in den Sozialwissenschaften. Relevante Beiträge entstammen der Psychologie, der Soziologie, aber auch der Ökonomik. Inzwischen ist die relevante Literatur beträchtlich angewachsen. Die vorliegende Abschlussarbeit unterscheidet zwei Teile: im ersten Teil werden verschiedene theoretische Ansätze dieser Literatur beschrieben und, angesichts vorhandener empirischer Belege, bewertet. Der zweite Teil befasst sich sehr detailliert mit einem jüngeren ökonomischen Ansatz. Hier wird auch die Rolle kulturelle Unterschiede diskutiert, die zu sehr unterschiedlichen Wahrnehmungen ausgeübter „leadership“ führen können. Im letzten Teil wird ein Vergleich von westlicher vs. nicht-westlicher Rolle von „leadership“ angestrebt.

Schlüsselworte: „Leadership“-Theorien, Unternehmertum, kulturelle Effekte.

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INTRODUCTION

Over the past eighty years the term “leadership” is being used very inflationary by hundreds of scholars from different disciplines such as psychology, sociology, philosophy or economics. They all wrote papers over papers with new and innovative theories, to describe the phenomenon “leadership”. And as at any science, the task to be solved got more extensive, than it was ever planned to become. The upcoming chapter is intended to give an overview over the more known leadership theories – starting from the earliest –, mentioning the influential authors of the theories and the culture they are reflecting.

But before starting with the theories, the term leadership has to be defined. The definition of Leadership is not uniform with all existing theories. The reason is that every leadership definition is built on different perspectives concerning leadership. Peter Northouse (2004) a Professor at the Western Michigan University, who has taught leadership – based on his book “Leadership: Theory and Practice” – and organizational communication for over 20 years, summarized the different perspectives as following *“Leadership is a process whereby an individual influences a group of individuals to achieve a common goal”* (p. 3).[1] Still the way an individual is exercising his/her influence on the group or organization can depend on the situation they are in, the personality traits possessed by the leader or even the change he/she is fostering in the organization respectively in the group. Consequently this led to different researching paths, which can be displayed by a short chronology of the theories. As following the researchers first concentrated their studies on the individual traits possessed by leaders – Trait Approaches –, next they turned to the leader behavior – Behavioral Theories –. As will be shown for the Situational/Contingency Theories the different variable settings play an important role, when describing the aspects of “leadership”. The Transactional/Transformational Theories focus on the relationship between leaders and followers respectively on the changes of this relationship, in the sense of empowering the followers to participate in the organizational changes and raising their consciousness.[2]

[1] See: Northouse P. G. (2004).
[2] See: Yukl (1989).

Chapter 1: The Review of Leadership Theories

The Treat Theory

The Great Man Theory as starting point

The distinction between leaders and non-leaders is as old as time. In History we find many "Great Men", who attracted followers and did something extraordinary. They became heroes and were role models for the people around them. The phenomenon of leadership uncovered many unanswered questions and scholars started to give first answers. In the 18^{th} century for example the "Great Man Theory" came up, which was quite popularized by the lectures "On Heroes, Hero-Worship and the Heroic in History" by Thomas Carlyle in 1840 and the corresponding book published in 1846. He was a Scottish writer and teacher, who studied at the University of Edinburgh and translated various essays and poems from German and French authors.[3] This theory is focused on leaders as exceptional men, which are born with their special intrinsic qualities, and therefore have to become leaders. As for many upcoming theories the scholars mostly focused on men of western cultures.[4]

The switch from the Great Man Theory to the Trait Theories

With the "Trait Approach" the researchers started to systematically analyze leadership. The greatest part of research concerning the trait theories was published between 1930 and 1950. At that time scholars believed that leaders needed to have special qualities respectively traits to be destined for leadership. Scholars like Ralph M. Stogdill who was one of the most influential trait theorists and professor emeritus at the department of management science and psychology at the Ohio State University wrote in 1948 a review on leadership, which is one of the most cited in this particular approach entitled: "Personal factors associated with leadership: A survey of the literature" published in the Journal of Psychology. The individual characteristics of leaders researched by scholars concerned their personality traits, their social traits

[3] For a more detailed curriculum vita see: Goldberg, M., Brattin, J. J., Engel, M. (1993).
[4] See: Bolden, R., Gosling, J., Marturano, A. and Dennison, P. (2003).

and their physical characteristics like height and weight.[5] Stogdill identified a number of traits, which he listed in his publication "Handbook of leadership: A survey of theory and research" in 1974. The list contains traits like self-confidence, responsibility, and sociability.[6] Northouse (2004) demonstrated in his book "Leadship: Theory and Practice" with a small table, how the traits found changed over time and *"it illustrates clearly the breadth of traits related to leadership"* (p. 18).

Table 1: A list of Traits and Characteristics from different leadership studies

Stogdill (1948)	**Mann** (1959)	**Stogdill** (1974)	**Lord, DeVader, and Allinger** (1986)	**Kirkpatrick and Locke** (1991)
Intelligence	Intelligence	Achievement	Intelligence	Drive
Alertness	Masculinity	Persistence	Masculinity	Motivation
Insight	Adjustment	Insight	Dominance	Integrity
Responsibility	Dominance	Initiative		Confidence
Initiative	Extraversion	Self-Confidence		Cognitive ability
Persistence	Conservatism	Responsibility		Task knowledge
Self-Confidence		Cooperativeness		
Sociability		Tolerance		
		Influence		
		Sociability		

Source: From: Leadership: Theory and Practice by Peter G. Northouse, 2004, California: Sage Publications, Inc.

[5] See: Barrow (1977).
[6] See: Northouse P. G. (2004).

The three traits, self-confidence, responsibility, and sociability, already mentioned belong to the central once, which were identified by several researchers. For example, Mann, an emeritus professor of psychology at the Michigan University reviewed the leadership studies in 1959 and identified traits like *“intelligence, masculinity, dominance and adjustment”* (p. 17) as necessary for a leader.[7] In 1991 the researchers Kirkpatrick and Locke reviewed the leadership literature and added to the list such traits as motivation and integrity.[8] Edwin Locke is professor emeritus at the University of Maryland and has published several books in such fields as organizational behavior and leadership especially trait theory. Shelley Kirkpatrick is the Co-Founder and CEO of Visiontelligence LLC. This few traits already show the inconsistency of the trait research and it is not clear how influential these traits are on leadership.[9] For instance, it was not proofed, that if a person possessed a mix of these traits he or she would become a leader.[10] It is important to mention that most of the leadership literature reflects Western industrialized cultures and is rather American in character.[11]

House and Aditya (1997) mentioned in their paper “The Social Scientific Study of Leadership: Quo Vadis?" that most of the studies conducted were not significant, due to the reason that *“such findings were seldom replicated in multiple studies”* (p. 410). Furthermore they quoted in their paper that leadership literature reviews by Stogdill in 1948 and Gibb in 1947 suggested that there are traits with a correlation of 0.5, which are linked to leadership effectiveness.[12] Consequently scholars decided that there are few respectively no traits, which could be said to predict always leadership effectiveness. Still it was Stogdill in 1948, who recognized the importance of integrating situational factors in the research of traits, like quoted by Northouse (2004) *“it is therefore difficult to identify a universal set of leadership traits in isolation from the context in which the leadership occurs”* (p. 23). [13]

[7] See: Northouse P. G. (2004).
[8] See: Northouse P. G. (2004).
[9] See: Marturano, A. and Gosling, J. (2008).
[10] See: Marturano, A. and Gosling, J. (2008).
[11] See: House and Aditya (1997).
[12] See: House and Aditya (1997).
[13] See: Northouse P. G. (2004).

The setbacks faced by the Trait Theories

The early trait theories faced many problems. The reason was not entirely the trait approach itself, but the limited *status quo* of investigation possibilities.[14] The difference between effective (high job performance, high subordinate satisfaction or performance, etc.) and ineffective leaders can easily be explained by the trait theories to non-professionals.[15] Since, a lazy person will probably less likely become a leader, when there is an achievement-oriented individual on the other side. Still for a profound science, this "logical" conclusion is not enough. However the starting point for conducting studies concerning the trait approach was at that time, where researchers did not have suitable methods and measurements for adequate research.

From 1904 until 1947 the primary research methods for evaluating traits and personal characteristic of leaders were the following listed in the publication "Handbook of Leadership" by Bass and Stogdill (1990)[16]:

> *(1) Observation of behavior in group situations*
> *(2) Choice of associates (voting)*
> *(3) Nomination or rating by qualified observers*
> *(4) Selection (and rating or testing) of persons occupying positions of leadership*
> *(5) Analysis of biographical and case history data (p. 59).*

The observations of behavior and the voting situations concerning associates were mostly conducted with children and not with real leaders. Even the analysis of biographical data respectively the Case-History was done for delinquent children by Ackerson in 1942 and by Brown in 1931 and not for high level managers. Many of these studies were missing a definition of leadership. In others the relationship between the research method and the problem "Which traits are associated with

[14] See: House and Aditya (1997).
[15] See: Northouse P. G. (2004).
[16] See: Bass and Stogdill (1990).

leadership?" was failed to spot. This early problems lead therefore, to quite empirically inconsistent data.[17]

Consequently, investigations of the same traits were operationalized differently, due to the reason that the researchers decided independently, how they wanted to study the traits. Without taking into account, how other researchers conducted their study for the same trait.[18]

Resulting from this lack of empirical support only few investigations for the same trait were replicative. On the other hand the test-measurement theory was poorly developed at that time. For example the method, where the effects of different factors could be analyzed within one experiment, factorial and multivariate experiment, came up after 1948.[19] Besides that the researchers only studied traits isolated from the situational contexts.[20] They never considered the importance of situational factors such as *"[…] task structure, subordinates needs and formal policies"* (p. 286)[21] in their leadership studies and how these factors could influence the personality traits being displayed by the leader.[22] As earlier briefly mentioned it is necessary to state that the scholars almost never tested their theories with "true" leadership personalities like chief executives, but with lower level managers or infants. Of course, these lower level managers weren't the leaders of the organizations, and therefore did never experience the difficulties of leadership.[23] Further the observed traits by the conducted studies, where often interpreted differently from the researchers and these definitions might be quite subjective, since the collected data is very extensive and broad.[24]

New insights for the trait theories

After 1948 the methods and measurements for scientific research improved significantly. The questionnaires for the studies advanced, due to the reason that the

[17] See: Bass and Stogdill (1990).
[18] See: House and Aditya (1997).
[19] See: Bass and Stogdill (1990).
[20] See: Northouse P. G. (2004).
[21] See: The Sage Handbook of Leadership (2011).
[22] See: House and Aditya (1997).
[23] See: House and Aditya (1997).
[24] See: Northouse P. G. (2004).

methodologists found techniques; able to minimizing the errors (halo effect[25]) of these methods. On one side, and on the other side increased the relevance and reliability of the collected data.[26] Bernard Bass was a scholar, who until his death in 2007 was a Professor Emeritus at the Binghamton University. The search for traits started to base upon on the factor analysis, as well as on the verification of the traits. In the Handbook of Bass (2008) there are further methods mentioned like *"the critical-incidents technique, forced-choice checklists, behaviorally-anchored rating scales, and semantic differentials"* (p. 96). During his lifetime he published several articles, in such journals as the Journal of Management or the America Psychologist. Furthermore he was the founding editor of The Leadership Quarterly journal.[27]

Due to the improvements of research methods the interest for the trait theories found its revival in the mid 1970s. Moreover the approach focusing on individual dispositions became more theoretical, which pooled into a substantial advancement of the trait theories.[28]

All these new inputs led to a "rethinking" of the studies conducted by Stogdill in 1948 and Mann in 1959. Since the new measurement tools and methods pointed at rather different results, respectively the data was not as negative as reported by Mann in 1959. Lord, De Vader and Alliger stated in their article "A Meta-Analysis of the Relation between Personality Traits and Leadership Perceptions: An Application of Validity Generalization Procedures" published in the Journal of Applied Psychology in 1986 that Mann (1959) and Stogdill (1948) misinterpreted the findings in their reviews of the trait literature. Both researchers had a quite negative view on the trait approach, which was further quite generalized by the upcoming researchers.[29] Robert Lord is a distinguished Professor at the University of Akron.[30] Christy L. Devader is associate Professor at the Sellinger School of Business, University Maryland[31] and George Allinger is adjunct professor for Psychology at the University

[25] *"The Halo effect is the bias resulting from stereotyping the individual on the bias of an earlier rating, and then rating the individual in terms of the stereotype on subsequent behavior."* (p. 264), from the book "Methods of Social Research" by Kenneth D. Bailey, 1994, New York: The Free Press.

[26] See: Bass M. B. (2008).

[27] Information from the Binghamton University, Center for Leadership Studies Research (2011)

[28] See: House and Aditya (1997).

[29] See: Lord, De Vader, Allinger (1986).

[30] Information gathered from Robert G. Lord's homepage at the University of Akron (2011).

[31] Information gathered from Christy L. Devader's homepage at the Loyola University Maryland (2011).

at.[32] On the opposite Lord, De Vader and Allinger (1986) for example showed by applying the validity generalization method on the data base derived from Mann's (1959) review, that they received quite different results, when using an improved method. Their frequency weighted *rs*[33] was in some cases significantly higher than Mann's (1959) median *rs* for the same traits, for instance intelligence with .38 versus .52 and masculinity-femininity with .24 versus .34.[34] The reasons of this divergent values can be summerized with a quote by Zaccaro, Kenny and Foti(1991) *"Lord et al. (1986) argued that Mann's findings of low associations between traits and leadership could be attributed to sampling error, unreliability, and range restriction"*(p. 309).[35] Stephen Zaccaro is a professor at the Institute for Leadership Excellence at George Mason University in Virginia. He edited several papers and articles for the Leadership Quarterly Journal and the Journal of Business and Psychology.[36] David Kenny is working currently as emeritus Professor of Psychology at the University of Connecticut.[37] Rosanne Foti is a faculty member of the department of psychology at VirginiaTech and works with different organizations on leadership skill development.[38]

The theoretical improvements led to the development of the social-cognitive explanation of leadership perception in the social cognitive area and the implicit leadership theories in the leadership area.[39] Both theories are similar since, the perceiver (follower) is deciding in which way to categorize his view of a person (leader). The perceiver groups his prototypes, which are possessing different attributes (respectively traits), into cognitive categories. On one side, followers would decide to follow the leader under the condition that he/she is matching their idea of a good leader. The consistency of these two perspectives on traits were briefly summed up by Lord, De Vader and Allinger (1986) as following *"[…] that cognitive*

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[32] See: About the Contributors in the book „Performance measurement: current perspectives and future challanges" edited by Winston Bennett, Jr., Charles E. Lance, David J. Woehr, (p. Xi).

[33] *„The Spearman rank-order correlation coefficient (rs) describes the linear relationship between two variables when measured by ranked scores."* (p. 151), from the book "Basic Statistics for the Behavioral Science" by Gary W. Heiman, California: Wadsworth, Cengage Learning.

[34] See: Lord, De Vader, Allinger (1986).

[35] See: Zaccaro, Kenny, Foti (1991).

[36] Information gathered from Stephan Zaccaro's homepage at the George Mason University (2011).

[37] Information gathered from David Kenny's homepage at the University of Connecticut (2011).

[38] Information gathered from Roseanne Foti's homepage at the Virginia Polytechnic Institute and State University (2011).

[39] See: Lord, De Vader, Allinger (1986).

schema composed primarily of traits are important perceptual constructs that should predict leadership perception or leadership emergence" (p. 403). The important traits were intelligence, extroversion-introversion and masculinity-femininity.[40]

After 1990 "the Big Five Personality Taxonomy" gained on importance, which is a personality model consisting of the factors *extraversion, agreeableness, conscientiousness, emotional stability and openness to experience*. These 5 factors occurred in many theoretical research studies, were examined by different research instruments, and captured different cross culture samples.[41] The most popular application area was job performance; it was applied to display the relationship between personality and job performance.[42]

The emotional stability (neuroticism) factor includes attributes such as anxiety or hostility, and stands rather for the negative emotional tendencies, whereas the extraversion factor is described by such characteristics as sociable, assertive and energy. The element Openness to experience consists of factors like imaginative, nonconforming and autonomous. The two traits achievement and dependability are forming the factor Conscientiousness and Agreeableness is the inclination to be trusting and complaint.[43]

According to researchers' opinions, theory on the "Big Five Taxonomy" is quite inconsistent. Whereas some scholars were acclaiming that there is finally a taxonomic structure of traits to investigate, the others were complaining that the list is too complete – in the sense, that the Big Five Model is implying an exhausting list of the important traits, which would make further research redundant – , too coarse or the most frequent statement even was that the catalog of factors is incomplete.[44]

Although the scholars have different points of view on the "Big Five Factors", they turned out to be a quite useful personality model. Current meta-analyses conducted by various researchers are using the "Five Factor Taxonomy" to reanalyze earlier

[40] See: Lord, De Vader, Allinger (1986).
[41] See: Barrick and Mount (1993).
[42] See: Judge, Bono, Ilies and Gerhardt (2002).
[43] See: Judge, Bono, Ilies and Gerhardt (2002).
[44] See: Judge, Bono, Ilies and Gerhardt (2002).

studies such as the “Personality and Transformational and Transactional Leadership: A Meta-Analysis” by Bono and Judge in 2004.
For example Judge, Bono, Ilies and Gerhardt wrote a paper entitled “Personality and Leadership: A Qualitative and Quantitative Review” in 2002, where they searched for literature in the PsycINFO data base to assess it with the Five Factor model. Timothy Judge is management professor at the University of Florida and believes that our DNA predicts our personalities.[45] Joyce Bono received is associate Professor at the University of Minnesota.[46] Remus Ilies is currently Professor at the department of management and organization at the National University of Singapore.[47] Megan Gerhardt is researching individual differences, motivation, learning and leadership at the University of Miami.[48] Their conclusion was that the “Big Five Model” is an important contribution, when it comes to explaining the connection between traits and leadership, as they stated *“Big Five typology is a fruitful basis for examining the dispositional predictors of leadership”* (p. 773). In their review they found the factor extraversion to be the highest correlated to leadership and leadership effectiveness. The next most important traits were conscientiousness and openness to experience.[49]

Another study conducted by Barrick and Mount with the title “Autonomy as a Moderator of the Relationships between the Big Five Personality Dimensions and Job Performance” in 1993 was intended to investigate the influence of the moderator variable autonomy on the Big Five Factors. The variable autonomy is defined in terms of the occupation possessed, so jobs with high or low level of autonomy. [50] Murray Barrick is distinguished professor at the Mays Business School at the Texas A & M University.[51] Michael Mount is professor at the University of Iowa.[52]

They took their samples for the conducted study among 154 participants from the U.S. Army Management Training Activity Department. Their conclusion on the results

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[45] Information gathered from Timothy Judge’s homepage at the University of Florida;
[46] Information gathered from Joyce Bono’s homepage at the University of Minnesota (2011).
[47] Information gathered from Remus Ilies’s homepage at the National University of Singapore (2011).
[48] Information gathered from Megan Gerhardt’s homepage at the University of Miami (2011).
[49] See: Judge, Bono, Ilies and Gerhardt (2002).
[50] See: Barrick and Mount (1993).
[51] Information gathered from Murray Barrick’s homepage at the Texas A & M University (2011).
[52] Information gathered from Michael Mount’s homepage at the University of Iowa (2011).

was quite similar as above already stated, suggesting that the five factor personality construct *“provides a useful framework for examining the relationship between personality constructs and performance criteria in different occupations”* (p. 115). Conscientiousness and extraversion had values that were significantly different from zero and managers with a higher level of autonomy possessing this combination of factors performed better than peers with relative lower level of autonomy. Surprisingly the investigation of “agreeableness” brought to a quite different result, since a person possessing this characteristic is better performing in jobs low in autonomy.[53]

The first step in a way towards incorporating moderator variables in the trait approach was done by different researchers such as Mischel in 1973. Like mentioned by House and Aditya (1997) in their paper, Mischel arrived at the cognition that certain characteristics of situations have a special effect on behavior. Situations can be separated into “strong” and “weak. Strong situations are described through exact behavioral norms, incentives for the “right” behavior and a punishment and reward system for certain behavior styles. However, all this strong formalization leads to a restriction of the actual behavior. That in these situations would be expressed, if all these behavioral rules, norms and organizational procedures were not influencing the personnel traits. This would be the case in weak situations. Especially the strong/weak situation point was never considered in earlier trait research.[54] For example Barrick and Mount (1993) incorporated this finding in their study with the moderator variable autonomy, since jobs low in autonomy could respond to strong situations and jobs high in autonomy could respond to weak situations. By doing so they investigated the effect that low respectively high autonomy had on the expressed personality traits. Although it is important to mention that the situational effects and autonomy of a occupation are not the same, still it can be used for research like quoted by Barrick and Mount (1993) *“in organizational settings the amount of autonomy on the job is a reasonable proxy for conditions that permit (weak situations) or inhabit (strong situations) individual differences in personality to be expressed”* (p. 112).[55]

[53] See: Barrick and Mount (1993).
[54] See: House and Aditya (1997).
[55] See: Barrick and Mount (1993).

Furthermore, new traits supported empirically by studies found their way into the trait research.
As mentioned by House and Aditya (1997) the researchers Bem and Allen in 1974 suggested theoretically and proved empirically that traits must not be predictable for all people's behaviors in the same intensity. This is probably due to the fact that the predictability of behaviors depends on the different self-monitoring tendencies of individuals. Persons with a high degree of self-monitoring might better respond to situational cues and are or suppress their reaction to these than low self-monitors. Another observation quoted in their paper is from Schneider in 1983, which is that not every trait is expressed in every situation. For example a person, who has a disposition towards being stressed, will not be stressed in a very calm environment, and will probably be doubled stressed in a very unsecure situation. Or a very self-confident individual can still be confronted with a situation, where he will not be as self-confident as usual.[56]

Aside from what House and Aditya (1997) said, mentioned the researchers House, Shane, and Herold, who in 1996 observed that traits may be constant for years, but not for a life time.[57] This hypothesis has been supported by the study entitled "The Rank-Order Consistency of Personality Traits from Childhood to Old Age: A Qualitative Review of Longitudinal Studies" by Roberts and DelVecchio in 2000. In their conducted review the trait consistency peaked after the age of 50, still there could be circumstances that would affect the traits even after the predicted age.[58] However, a decision made in a certain state of disposition, which was intended for a short period of time, still can have a long term effect on the situation of the company or person. Furthermore, these consequences could never be predicted by the person, who made the decision by relying on their traits.[59]

[56] See: House and Aditya (1997).
[57] See: House and Aditya (1997).
[58] See: Roberts and DelVecchio (2000).
[59] See: House and Aditya (1997).

The advancement of the Trait Theories

Theories respectively Approaches derived from the different trait paths are shortly presented below.

The Achievement Motivation Theory

The Achievement Motivation Theory developed by McClelland in 1961, with its origins in the 1940s, states that, Individuals non-consciously have the concern to reach extraordinary results for accomplishments set by them. The individual achieves his goals by investing his individual effort. Persons, who are achievement oriented, set challenging goals and feel the responsibility to reach these goals and act very persistent. They are aware of the risks connected to their challenging goals, and seek to gather as much information as possible. The relevance of the Achievement Theory was empirically tested and found support by 1,000 studies.[60] Achievement motivated persons are supposed to show a high degree of self-regulatory. It was suggested that achievement motivation would work best for leaders of small task-oriented groups and leaders of small entrepreneurial firms. Since, these individuals are not good a delegating responsibility and want to stay incorporated in the work performance, which in large companies is not possible.[61]

The Charismatic Leadership Theory

The Charismatic Leadership Theory introduced by House in 1977 was concentrating on personality traits, such as a high degree of self-confidence, a strong need for moral correctness of beliefs and the requirement to incorporate and exercise influence. These traits were supposed to be best describing a charismatic leader personality. The theory stated that charismatic leaders must challenge the current status, initiate change and still, be able to defend all their decisions against others with more power.[62]

[60] See: House and Aditya (1997).
[61] See: House and Aditya (1997).
[62] See: House and Aditya (1997).

The Behavioral Theories

The shift from a Leaders' Traits to a Leader's Behavior

Due to the limited research findings of the trait theorists and the inconsistency of the listed personnel characteristics, the object studied by the leadership scholars changed. The shift towards the behavior of leaders came in the 1940s, respectively 1950s and was probably likewise due to another reason quoted in the book "Leadership: The Key Concepts" (2008) edited by Marturano and Gosling as following *"the general shift towards the study of observable behavior in psychological research"* (p. 11)[63]. The idea of the early behavioral theory suggested that there are certain behavioral patterns of leaders, which could be observed and would explain the reasons for effective leadership. The behavioral patterns were investigated by observing leaders in their usual working situations, by talking to their subordinates or under laboratory conditions.[64] The new research path was briefly described by Northouse (2004) as following *"the style approach expanded the study of leadership to include the actions of leaders toward subordinates in various contexts"* (p. 65).[65]

The scholars gathered data by using questionnaires, which will be explained in detail in the upcoming part. Two classes of leader behavior appeared quite often and in different studies, these were the so-called relationship and task behaviors. Depending on the researchers and theories they were also named employee-orientation and task- orientation behaviors or Initiating Structure and Consideration. The common thread of these different quotations was that one behavior (relationship behavior, employee-orientation behavior and Consideration) aimed at describing the leader's concern for the welfare of the followers by treating them as equal, by asking for and considering their opinions and individual needs. Whereas the other behavior (task behavior, task-orientation behavior, Initiating Structure) tended to define the work processes, describing the goals to be achieved, insisting on meeting the deadlines and the leader is deciding alone what should be done and how.[66]

[63] See: Marturano, A. and Gosling, J. (2008).
[64] See: House and Aditya (1997).
[65] See: Northouse P. G. (2004).
[66] See: Bass M. B. (2008).

In the next section it will be looked more closely at the most influential research groups and their behavioral approaches.

The developments from the Ohio State and the Michigan University

The two major outrider institutions to the theory were the Ohio State University and the University of Michigan. Important scholars for the Ohio State studies were Coons and Stogdill with their book entitled “Leader behavior: Its description and measurement” in 1957 and the development of the “Leader Behavior Description Questionnaire” by Hemphill and Coons. On the other side at the Michigan Research Center the researchers Kahn & Katz with their chapter “Leadership practices in relation to productivity and morale” in the book “Group dynamics” from 1953 found their way into the behavioral research. Further researchers bothering with the topic were Likert in 1961 and Mann in 1965.[67]

The staff members of the Ohio State Studies coming from different disciplines started gathering items/phrases, which described different aspects of leader behavior. The outcome of these constructive conservations was a list of 1,800 items describing various facets of leader behavior. Afterwards the different items were assigned and a questionnaire was composed consisting of 150 questions for describing leader behaviors, the so-called “Leader Behavior Description Questionnaire (LBDQ)”.[68]

The LBDQ was filled in by hundreds of individuals coming from different areas such as military, industry and education.[69] The evaluation of the gathered data lead at the end to two orthogonal factors respectively clusters of behavior, which were Consideration and Initiating structure. These two factors became known as the “Ohio State” dimensions of leadership.[70]

[67] See: House and Aditya (1997).
[68] See: Northouse P. G. (2004).
[69] See: Marturano, A. and Gosling, J. (2008).
[70] See: Bowers and Seashore (1966).

The clusters were briefly described by Bowers and Seashore as following:

1. *Consideration: Behavior indicative of friendship, mutual trust, respect, and warmth.*
2. *Initiating structure: Behavior that organizes and defines relationships or rules, and establishes well-defined patterns of organizations, channels of communication, and ways of getting jobs done. (cit.: Bowers and Seashore 1966, p. 241).*

The Ohio State dimensions were tested in a few laboratory and field experiments. The tests in the U.S. showed that Consideration had a positive effect on subordinate satisfaction, but the other findings were contradictory and inconclusive. A test in Japan showed that a mix of person oriented and task oriented behavior had the most effective leadership results. However, these results showed too, how important it would be to consider the cultures, when investigating leadership.[71]

The research conducted by the Michigan University was conducted in small groups and the focus of the study was on leader behavior and its impact on group performance, leading to the following findings.[72]
The Michigan Survey Research Center developed two concepts namely the employee orientation or person-oriented behavior and production orientation or task-oriented behavior. The two concepts were built on clusters of characteristics, which showed a positive correlation among each other and with criteria associated with effectiveness. Employee orientation behavior can be observed, when employees are important to the leader, when he is considering their feelings in decision situations, when he is working on positive relationships between him and his employees. On the opposite side the production orientation behavior displayed by a leader is only concerned with the production and the technical aspects of it. Employees are only factors of the production, and not seen as individuals.[73]

[71] See: Yukl (1989).
[72] See: Northouse P. G. (2004).
[73] See: Bowers and Seashore (1966).

Still, after all the research concerning leader behavior the researchers didn't find any behavioral patterns, which could always be predictable for subordinates' satisfaction or leader effectiveness in every situation.

<u>The benefits and limitations of the behavioral theories</u>

The researchers were able to cluster the two factors, Initiating Structure and Consideration, which shifted the research away from the traits approach, where just personality characteristics counted. Hence this was a positive consequence, since the leaders were no more predetermined by birth and could learn the necessary behavior patterns. The behavioral approach integrated the leader's actions, how he performed tasks and worked towards a relationship with his subordinates. In this sense the behavioral approach is heuristic and can be used by the leader to change and improve his leadership style. Since the effective leadership behavior consists out of the relationship and task dimension and the leader has just to find the right balance.[74]

Still on the other side the shortcomings of the theory have to be mentioned. Although the research body for the behavioral approach was quite large, still the results were relatively devastating.
In the beginning of the behavioral approach the questionnaires used for the research were based on the subordinates' stories concerning the behavior of their superiors. The theoretical concepts were still not developed; therefore the research was not really theoretically orientated and quite inductive.[75]
The researchers were not able to identify a universal set of effective leadership behavior, which would always lead to successful outcome. As for the trait approach, they didn't consider the importance of situational contingencies. However it is obvious that not the "one effective" behavioral pattern will work in every situation, since the environmental factors (technology, complexity of the task, etc.) are not taken into account. Moreover researchers didn't consider the leaders' values and motives, which beyond question are shaping an individual's behavior.[76]

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[74] See: Northouse P. G. (2004).
[75] See: House (1997).
[76] See: Marturano, A. and Gosling, J. (2008).

In the leadership literature the high on task and high on relationship behavior is supposed to be the most effective style. Still there are some leadership situations, where relationship behavior is not necessary or where task behavior can be obsolete. Further many studies showed that considerate leaders have more satisfied subordinates, but not necessarily higher performance outcomes. [77]
The results of the massive behavioral studies were by Yukl (1989) as following summarized *"Findings in this line of research have been contradictory and inconclusive."*(p. 258) and this phrase was often cited in the leadership literature until today.[78]

The Approaches incorporating behavioral findings

After concentrating on the leader behaviors, researcher developed many theories based on a varying amount of factors. The studies started from 2 factor theories (Bales' Socio-emotional/Task Specialists) and continued to 5 factor (Wofford's Managerial Behaviors) theories.[79] In the following section Mann's Skill Mix and Bowers and Seashore's Four-Factor theory will be briefly outlined to give an insight on the multitude of behavioral approaches. Afterwards the probably most well-known behavioral approach, the leadership grid by Blake and Mouton, will be delineated roughly.

The Skill Mix by Mann

Floyed Mann developed his Skill Mix Theory in 1962. He built his theory on three skills, which leaders ought to have.[80] Moreover these skills are composing a leader's behavior.[81] The three skills are:

[77] See: Northouse P. G. (2004).
[78] See: Yukl (1989).
[79] See: Barrow (1977).
[80] See: Bowers and Seashore (1966).
[81] See: Barrow (1977).

1. Human relations skill: A Leader needs to have the ability to work with people, and he has to be able to judge people right. He has to know and understand human behavior variations and to motivate people.
2. Technical skill: The Leader has to know and use the necessary knowledge, methods, and techniques for performing the required organizational tasks.
3. Administrative skill: This is the Ability to understand that decisions have to be made for the good of the whole organization, and not for the good of a single department. The leader has to be able to assign tasks to the right employees, organize, plan and follow up the work by looking at the total organization.[82]

The Four-Factor Theory by Bowers and Seashore

In 1964 Bowers and Seashore reviewed the existing leadership literature. By doing so they developed their own theory describing leader behavior and building on the following four factors.

1. Support: A leader is exercising a behavior, which is enhancing an employee's importance and raising the employee's self-confidence.
2. Interaction facilitation: This Factor is describing the positive influence of the leader on the working relationships.
3. Goal emphasis: A leader's ability to enhance the need for achieving a group's goals and be excellent at work.
4. Work facilitation: The leader's behavior necessary to plan, schedule and co-ordinate tasks of the working groups.[83]

Blake and Mouton's Leadership Grid

The leadership grid model is probably not only the best known one, but it is too a more practical behavioral approach, building on the findings of the Ohio State and Michigan University, which still is used in the areas of leadership development and organizational practice.[84]

[82] See: Bowers and Seashore (1966).
[83] See: Bowers and Seashore (1966).
[84] See: Marturano, A. and Gosling, J. (2008).

The grid model consists of two factors, quite similar to Initiating Structure and Consideration, which are concern for people and concern for production. These two factors are the basic components for how a leader reaches the organizational goals. Concern for production behavior is displayed by the leader, when he is concerned with achieving the organizational purpose. He is engaged in process issues, the workload and further activities concerning the production. On the other side there is the leader, who is promoting good social relations, building trust within the people necessary to reach the organizations' goals and fostering employees' individual worth. This kind of behavior refers to a leader, who displays concern for people.[85]

The two components are combined in a grid model, where the intensity for a concern is shown by a value between 1 (low) and 9 (high). The concern for people is displayed on the vertical axis and the concern for production on the horizontal axis.[86]

After plotting the scores on the axes, different leadership styles can be displayed. The five major styles that were identified by Blake and Mouton's Leadership Grid are:

(9,1) Authority-Compliance Management: The behavioral focus is here on the concern for production. The employees are only seen as tools necessary to accomplish the tasks. For this leader only the results count, that's why he is very controlling and overpowering.

(1,9) Country Club Management: The leader's style at this point shows a high concern for people. He is building friendly relationships to his employees and is driven by the social need of his workers. The concern for production is very low and he is lacking in achieving organizational tasks.

(1,1) Impoverished Management: Within this leadership style the leader expresses low concern for people and for production. The leader acts quite apathetic, has little contact with his subordinates and displays only the effort necessary to stay in the organization.

[85] See: Northouse P. G. (2004).
[86] See: Bass M. B. (2008).

(5,5) Middle-of the-Road Management: The leader seeks to balance the concern for people and the concern for production at the equilibrium. Due to the reason of devoting the attention to both factors the leader is losing his push/drive for one or the other factor, which results in weak progress and in maintaining the *status quo*.

(9,9) Team Management: In this case the leader has a high concern for both factors. The leader is fostering the participation of his employees to achieve the organizational goals; still he is meeting the employees' needs for attention and the work schedule.[87]

According to Blake and Mouton a leader has a primary style, which he displays under usual circumstances and a secondary style, which he exhibits under pressure or in unusual situations, when his primary style doesn't show the required effect. Moreover the two scholars identified two further style patterns the so-called "Paternalism/Materialism" and the "Opportunism". The first pattern is a mix of the two leadership styles 1,9 and 9,1. The leader is just acting benevolent, when it is necessary for accomplishing the task and reaching organizational goals. In the case of Opportunism the leader combines or demonstrates any behavioral styles necessary to promote his personal advancement.[88]

<u>Input for the future of the behavioral approach</u>

The research on Initiating Structure and Consideration is one of the more robust ones. Although scholars such as Northouse (2004), Yukl (1989) and House and Aditya (1997) concluded their work on the topic with quite negative statements, there are still new inputs to the behavioral approach. So did Judge, Piccolo and Ilies (2004) conduct a meta-analysis of the relationship between Initiating Structure & Consideration and leadership, which resulted in the article "The Forgotten Ones? The Validity of Consideration and Initiating Structure in Leadership Research" published in the Journal of Applied Psychology and their result of the review is summarized below as following:

[87] See: Northouse P. G. (2004).
[88] See: Marturano, A. and Gosling, J. (2008).

"The results of the present quantitative review revealed that both Consideration and Initiating Structure have important main effects on numerous criteria that most would argue are fundamental indicators of effective leadership" (p. 44).

The conductors of the meta-analysis wanted to turn the scope of research back towards the Ohio State dimension, since they believe that Initiating Structure and Consideration should not be abandon from leadership research.[89]

The future will show if their effort was sufficient. In the meantime the overview is turning toward another leadership research direction.

The Situational and Contingency Leadership Theory

The researchers are turning to the situational variables

Due to the reason that researchers were not able to describe leadership only by Leader traits and Leader behavior, and the explanatory statement that the reason was not considering the situational variables, scholars turned to the situational or contingency theories in the mid 1960s. The basic assumption of the approach is that there is no "one right way". Leaders effective in one situation may fail completely in another situations or positions by leading the same way. Therefore, the right leadership style for a certain situation is depending upon different factors. These factors are necessary to find the most appropriate leadership style and consequently lead to the most effective outcome of a situation.[90] Among these factors are for example the leaders' styles, his abilities, the behaviors and characteristics of subordinates, the technology, time demands, the organization's structure, external threat and stress and many more.[91] All these variables are constantly influencing the leader and his behavior towards situations and subordinates.

[89] Judge, Piccolo and Ilies (2004).

[90] See: Bolden, R., Gosling, J., Marturano, A. and Dennison, P. (2003); and Yukl (1989).

[91] See: Barrow (1977).

The basic distinction between the situational approach and the contingency approach is, that while for the situational approach the leader has always to adapt his leadership style to the circumstances, on the other part for the contingency approach the circumstances have to be adapted to the leader's leadership style. Hence, for the situational approach the leader has to analyze the situation he is in, his subordinates 'competences and commitment for task accomplishment and in the end he has to match and adopt the appropriate leadership style for the situation. The contingency approach tries to match a suitable leader with his individual leadership style to a suitable context respectively situation. In this case not the leader has to change respectively adapt his style, but the work variables need to be changed by the organization or the leader has to be fitted to a different situation.[92] Still in both cases the context of a situation has to be examined.

Influential authors to the situational and contingency theories were House in 1971 and House & Mitchell in 1974 with the Path Goal Theory; Fiedler & Garcia by introducing the Cognitive Resource Theory in 1987 and others like Hersey and Blanchard with the Life Cycle Theory introduced in 1969 or Vroom & Yetton developing the Decision Process Theory in 1973. In the following section only the first two theories and their limitations will be described in detail.[93]

<u>Theories coming from the Situational/Contingency approaches and their strength and weaknesses</u>

The Cognitive Resource Theory by Fiedler

The Cognitive Resource Theory has its origins in Fiedler's Contingency Theory from the late 1960s. The Contingency Theory was the first one, which described how situational variables have an effect on leader personality and behavior, and vice versa. The Theory is built on the interactions between a leader's task-motivation versus his relationship-motivation and the extents of the factors. Furthermore it is based on the situational control, which describes the level to which a leader is able to influence and control the work group's process.[94] The theory is introducing a leader

[92] See: Northouse P. G. (2004).

[93] See: House and Aditya (1997).

[94] See: House and Aditya (1997).

trait LPC, which is supposed to express the leader-member relation, and their influence towards leader effectiveness. In some situations are leaders with a high LPC more effective in other situations are leaders with a low LPC more effective. A high LPC indicates that the leader has an affiliation need respectively is relationship motivated. On the other side a low LPC is supposed to show task-achievement needs / task-motivation. The interpretation for the LPC score is still not clear and the LPC score analysis has changed quite often over the 2 decades of research conducted by the scholars. The theory with its eight conditions describing situational control was only partially supported by researchers. This was due to the reason that not all eight conditions were significant and the different outcomes of the field and laboratory studies.[95] Because laboratory studies were supporting the theory, except for one condition, and the field studies fell short by just supporting five out of the eight conditions.[96] Further limitations of Fiedler's Contingency Theory were weak measures, confusing variables, not really comprehensible analyses and most important the conceptual deficiencies by only using one leader trait LPC.[97]

In spite of all the critics Fiedler continued with his researcher on situational control, and developed together with Garcia the Cognitive Resource Theory in 1987. The new theory is more concentrating on the effects on leaders and followers due to stress caused by occurring situations. One form could be described as situational unfavorableness. The Cognitive Resource Theory is a person-by-situation interaction theory. It is described by the person variables

- Leader Intelligence and
- Leader Experience.

And by the situational variable

- Stress experienced by leaders and followers.

A very important cognition made by Fiedler and his colleagues is summed up in the table below:

[95] See: Yukl (1989).
[96] See: House and Aditya (1997).
[97] See: Yukl (1989).

under Low Stress	Intelligence	positively correlated	with Performance
	Experience	negatively correlated	
under High Stress	Intelligence	negatively correlated	with Performance
	Experience	positively correlated	

Therefore it is possible to say that in situations of high stress, dull, but experienced persons, will perform better than intelligent persons and vice versa. So for a good performance people should relay, depending on the situation, on either intelligence or experience, but the truth is that people always take both into count, when performing. The Cognitive Research Theory is too giving the input for answering an important question, already raised by many researchers. In fact it is solving the problem, when a directive or a more participative leadership style with followers, will be more effective. The Theory indicates that leader intelligence appears to be beneficial for the performance, when

- the leader is telling the group what to do
- and group members listen to the leader. (Directive Leadership Style)

Especially under poor leader-follower relationships, the directive leadership style will only be effective, when the leader is able to fully control the follower behavior, and can distinguish whether, depending on the situation, to use intelligence or experience. Consequently directive leadership will not work, if the leader is lacking intelligence in low stress situations or experience in high stress situations.

Under the following aspects a Participative Leadership style will be effective in low stress situations, when

- the group members are more intelligent than the leader, and
- leader-follower-relationships are good.

Or in high stress situations, when

- the group members are more experienced than the leader, and
- the leader is doing what the group is suggesting (good leader-follower-relationship).

Hence, neither directive nor participative leadership will work; when the leader has no control over follower behavior respectively the leader-follower-relationship is very poor. A process of finding suitable leaders suggested by Fieldler, is to search and select individuals with the necessary intellectual abilities, experience and knowledge associated with the job. Moreover it is important to establish situations for leaders, which enable them to use their cognitive resources, owning to them their hiring, effectively.[98]

The contingency approach is backed up by a lot of empirical research, its validity and reliability was tested by many researchers. The Theory shifted the focus from only on leader traits, leader behaviors and situations toward the relationship between situations and their impact on the leader. Furthermore the contingency approach enables the organization to fit the right leader to the situation and consequently determine the probability that the picked leader will be successful in this certain situation. Hence, the theory does not expect a leader to be effective in every situation, but only in the matched one. On the other side the contingency approach is not explaining why one leader style is effective in one situation, but not in every situation. Additionally it gives no answer to the question what an organization should do, if a leader does not fit the situation. The Theory is recommending changing the situation trough situational engineering, but is not adequately describing this tool. And sometimes it is not easily possible to adapt the situation to the leader style.[99]

The Path-Goal Theory by House & Mitchell

The original Path-Goal Theory was developed by House in the early 1970s. It described the dyadic relationships between superiors and subordinates. In detail the theory initially specified a number of situational terms, which were supposed to illustrate the relationship between task- and person-oriented leadership and consequently their effects. Beside the situational terms, the theory included follower trait moderators, four leader behaviors, five intervening variables and two dependent variables, which in the end led to a quite complex basic context. The Theory may have been a gain for the leadership theories, but after the empirical testing, it just led to mixed and disappointing results, which was probably due to inadequate testing methods. Furthermore, in the early 1970s, the leader behavior measures were in an

[98] See: House and Aditya (1997).
[99] See: Northouse P. G. (2004).

early stage of development and the latent structure model was not yet launched into the organizational behavior literature. The findings of the early Path-Goal Theory smoothed the way for 1976 Charismatic Leadership Theory, and the refined Path-Goal Theory by House in 1996.[100]

The advancement of the Path-Goal Theory was due to the cognition of House, that follower must not be competent enough to evaluate the probabilities of goal performance, and the receiving of extrinsic effects associated with such accomplishments. The 1996 version is more specific and clearer concerning the hypotheses and the limitation terms. The refined theory is now concentrating on the relationships between superiors and work unit effectiveness. The new Path-Goal Theory is built on eight sets of leader behavior such as directive, supportive, participative and achievement-oriented. Moreover it is constructed on situational contingencies, which determine the effect of the exercised behaviors on the work unit's performance.[101]

The path goal theory explains and shows how leaders can motivate and help subordinates to reach their goals. The leader should accomplish this task by choosing a specific leadership style, which would best fit the subordinates' needs and the working situation. The reward for this effort would be successful and satisfied subordinates and a better performance for the leader.[102] The other key aspects, which influence the suitable style, are situational factors. These are the personal characteristics of the subordinates, which moderate their performance and satisfaction, as well as the environmental and structural factors of the tasks.[103]

The path goal was the first situational/contingency approach in leadership research, which would explain the influence of task and subordinates' characteristics on the leadership style and its impact on subordinates' performance. By doing so the scholars developed a theoretical framework that helps understanding the affects of different leadership style on subordinate's satisfaction and work performance. It further incorporates the motivation factor in a leadership theory, which until this

[100] See: House and Aditya (1997).
[101] See: House and Aditya (1997).
[102] See: Northouse P. G. (2004).
[103] See: Gill (2006).

approach was never done. Furthermore it provides a quite practical approach that encourages leaders to guide and coach their subordinates along the path for reaching successfully goals.[104]

Although it is very consistent with the leadership literature respectively with the theoretical descriptions of leader behavior and the relationships between leaders and subordinates, still more empirical research on the topic is needed.[105]

The Transformational and Transactional Theories

<u>A new perspective with the introduction of the Transformational and Transactional Theories</u>

In the early 1980s the perspectives on leadership changed once again and the research started concentrating on the transformational and transactional approach.

The researchers started concentrating on the role of leadership respectively leaders affecting the transformational changes of their employees, their work units and in the end the complete organization. The most influential author was Burns with his book "Leadership" published in 1978. Burns obtained his PhD in political science from the Harvard University and he put his heart and soul into the leadership research. He described the transformational approach in a very "heroic" way, because leaders should encourage and assist followers by being transformed into leaders, raise each other to higher levels of motivation and live up to high moral values.[106]

Yukl summarized Burns delineation of the transformational leadership in his paper "Managerial Leadership: A Review of Theory and Research"(1989) as follows *"Transformational leadership refers to the process of influencing major changes in the attitudes and assumptions of organization members and building commitment for the organization's mission, objectives, and strategies"* (p. 269).[107] The leader is

[104] See: Northouse P. G. (2004).
[105] See: House and Aditya (1997).
[106] See: Bolden, Gosling, Maturano and Dennison (2003).
[107] See: Yukl (1989), p. 269.

playing a major role in this context, in the respect, that he is empowering the followers to participate in the transformational processes. Moreover the leaders performing transformational leadership are involved at different levels and units of the organization.[108]

Alan Bryman Professor of Organizational and Social Research at the University of Leicester wrote a book in 1992 entitled “Charisma and leadership in organizations”, which described the “New Leadership” paradigm. The “New Leadership” research is more concentrating on the charisma and affective factors of leadership, just like the transformational approach. The leadership literature research on the transformational approach is huge and it brings an important new insight with it to leadership.[109]

In 1985 Bernard Bass formulated the transformational and transactional approach in the way he sees it and initiated a huge wave of researcher on the topic continuing until today.

According to Bass *“transformational leadership occurs when leaders broaden and elevate the interests of their employees, when they generate awareness and acceptance of the purposes and mission of the group, and when they stir their employees to look beyond their own self-interest for the good of the group”* (p. 21).[110]

Transformational leadership establishes trust, admiration, loyalty and respect in the follower for the leader. It motivates the follower to do more than expected, to rise above ones own boundaries.[111]

In the SAGE Handbook of Leadership Transactional Leadership is described as follows *“Transactional leadership involves an exchange wherein the leader offers rewards in return for compliance and performance by his or her followers”* (p. 300)[112]

Transactional leadership does not inspire admiration, commitment or enthusiasm in the follower. As a matter of fact, it just generates the work effort of the follower that is necessary to carry out the tasks issued by the leader and in exchange the leader offers a reward to the follower for successful accomplishment or a punishment for not meeting the expectations.[113]

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[108] See: Yukl (1989).

[109] See: Northouse P. G. (2004).

[110] See: Bass, B.; From Transactional to Transformational Leadership: Learning to Share the Vision, Organizational Dynamics (1990).

[111] See: Yukl, Leadership in Organizations, (2010).

[112] See: The Sage Handbook of Leadership (2011).

[113] See: Northouse P. G. (2004).

The Transformational and Transactional approaches are described by altogether seven factors. Transformational leadership is described by the following behaviors/factors (1) Charisma or Idealized influence, (2) Inspirational motivation, (3) Intellectual Stimulation and (4) Individualized Consideration. Transactional leadership is built on the behaviors (5) Contingent Reward and (6) Management by exception (active or passive). The seventh factor is a non-leader factor, the so-called laissez-faire leadership.[114]

Bass characterizes the factors as below:

Transformational
(1) Charisma: Provides vision and sense of mission, instills pride, gains respect and trust.
(2) Inspiration: Communicates high expectations, uses symbols to focus efforts, expresses important purposes in simple ways.
(3) Intellectual Stimulation: Promotes intelligence, rationality, and careful problem solving.
(4) Individualized Consideration: Gives personal attention, treats each employee individually, coaches, advises.

Transactional
(5) Contingent Reward: Contracts exchange of rewards for effort, promises rewards for good performance, recognizes accomplishments.
(6a) Management by Exception (active): Watches and searches for deviations from rules and standards, takes corrective action.
(6b) Management by Exception (passive): Intervenes only if standards are not met.

Non-leader Factor
(7) Laissez-Faire: Abdicates responsibilities, avoids making decisions.
(Source: “From Transactional to Transformational Leadership: Learning to Share the Vision”, Organizational Dynamics, 18, p. 22, 1990)

[114] See: Yukl, Leadership in Organizations, (2010).

For reasons of exhaustiveness two other lines of approach concerning the transformational leadership theories are mentioned and will be briefly outlined, which would be “Leaders: The strategies for taking charge” by Bennis and Nanus in 1985 and “The transformational leader” by Tichy and DeVanna in 1986. The first identified four common strategies, which are used by a leader, when transforming organizations (vision, social architects, trust, and creative deployment of self through positive self-regard). The second found out that a leader is working in a three-act process, when transforming organizations (recognizing the need for change, creation of a vision and institutionalizing changes).[115]

The strong points of transformational and transactional leadership

The research on the transformational and transactional approach is based on a vast spectrum of empirical research. The studies range from qualitative studies with famous leaders and CEOs over the Cross-cultural context to the meta-analytic studies. Especially quite funded findings are the positive effect of the large research body on this topic.[116] Hence, Bono and Judge in 2004 conducted a meta-analytical study entitled “Personality and Transformational and Transactional Leadership: A Meta-Analysis” were they found a strong relationship between extraversion from the Big Fives and transformational leadership. They are suggesting further research in this direction, which could be useful in the end for leadership training.[117] Another meta-analytical study tested the validity of transformational and transactional leadership and found that *“the results provide important support for the validity of transformational as well as contingent reward and, to some extent, laissez-faire leadership”* (p. 765).[118]

Furthermore the transformational leadership is appealing to people outside the research body, because it confirms society’s view on leaders. Moreover the transformational leadership is a process, whose essence is the interaction between leader and follower, the needs of both are central to the approach and due to this the followers gain an important position. Another important aspect of the approach is that

115 See: Northouse P. G. (2004).
116 See: The Sage Handbook of Leadership (2011).
117 See: Bono and Judge (2004).
118 See: Judge and Piccolo (2004).

it has a moral dimension, which leads to higher standards of moral responsibility for leaders and followers.[119]

The weak points of transformational and transactional leadership

Every concept has a strong and weak side to it. The shortcomings of the transformational approach research include that it attributes all the changes of the organization to the leader, it ignores the influence of other factors fostering change in the organization, like follower's contributions, situational factors or process factors. Another limitation is the closed-mindedness of the researchers, who stick to one approach, not acknowledging the complete body of research on leadership, which might give new inputs to the approach and by this advance their own studies.[120]
Transformational Leadership is supposed to fit any context; this finding was supported by many scholars. Still, Yukl has a more critical view on this prediction. According to Yukl *"Transformational leadership seems widely relevant, but there may be situations where it is unnecessary or has negative consequences along with positive ones. The relative importance of different transformational behaviors probably depends on the situation"* (p. 301)[121]

So still after years of research and a multitude of articles concerning leadership the universally applicable approach has not yet been found.

[119] See: Northouse P. G. (2004).
[120] See: The Sage Handbook of Leadership (2011).
[121] See: Yukl (1999).

Chapter 2: The way economists are approaching leadership and the inputs form cultural differences

The Skill Approaches

At this stage it is important to mention that the skill approach arose around the same time as the trait approach did. The first to “throw” skills on the “Leadership-Table” was Robert L. Katz with his article “Skills of an effective administrator” published in the Harvard Business Review in 1955. Still, for the underlying paper the skill approach bears a higher relation to the second chapter, since skills and abilities play a central role to this chapter. The skill approach, like the trait approach, views leadership from a leader-centered perspective. Still, the main difference of the two approaches is that the focus is shifted from traits/characteristics to skills and abilities. Traits are described as fixed and innate personality characteristic, whereas skills are abilities that can be learned and improved. Although both play a central role in leadership, the skill approach claims that acquired knowledge and developed abilities are inevitable for effective leadership (i.e., administration).[122] Below the two famous skill approaches by Katz in 1955 and Mumford and Colleges in 2000 will be depicted.

Katz’s three skills approach

The article entitled “Skills of an Effective Administrator” by Katz in 1955 moved the research from traits to developable skills. Katz has taught as professor at various universities like Dartmouth, Harvard and Stanford, moreover he helped founding five companies and written three textbooks.[123] He defined three skills to be essential for an effective administration (i.e., leadership); these were *technical, human and conceptual* skills. A leader is supposed to possess all three skills; still the necessity to display them depends on the management position he is occupying.[124] Hereafter the three essential skills will be delineated in detail, for the sake of comprehension, it is important to quote the definition of skills by Katz (1974), which is

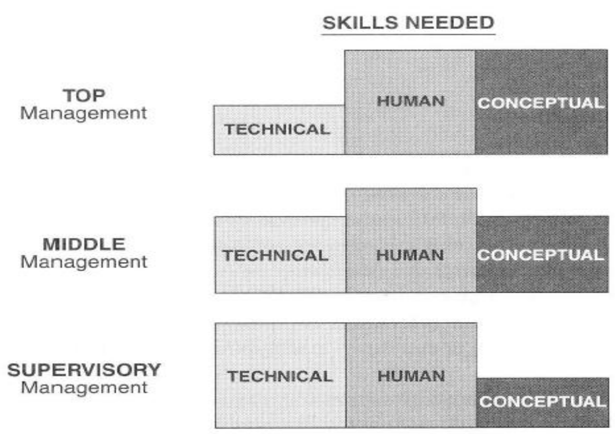
[122] See: Northouse P. G. (2004).
[123] See: Katz R. (1974).
[124] See: W. Glenn Rowe and Laura Guerrero, Cases in Leadership, (2011).

"As used here, a skill implies an ability which can be developed, not necessarily inborn, and which is manifested in performance, not merely in potential. So the principal criterion of skillfulness must be effective action under varying conditions."(p. 91).[125]

An administrator (i.e., leader) by Katz (1974) is described as a person, which *"directs the activities of others and undertakes the responsibility for achieving certain objectives through these efforts"* (p. 91).[126]

The figure below shows the different management levels and where which skill is most important for effective leadership.

Figure 1: **Management Skills Necessary at Various Levels of an Organization.**



SOURCE: Adapted from "Skills of an Effective Administrator," by R. L. Katz, 1955, *Harvard Business Review.*

Source: From: Leadership: Theory and Practice by Peter G. Northouse, 2004, California: Sage Publications, Inc.

The three skills are below described and the variation of the importance of the skills will be outlined by incorporating the above-mentioned figure.

Technical skill

The technical skill describes the level of knowledge and proficiency in a specific area, respectively activity, including necessary methods, processes and techniques; an administrator (i.e., leader) is supposed to posses. Furthermore this skill involves

[125] See: Katz R. (1974).

[126] See: Katz R. (1974).

knowledge of the organization's rules and organization's products.[127] Moreover Katz (1974) depicts the ability as following *"Technical skill involves specialized knowledge, analytical ability within that specialty, and facility in the use of the tools and techniques of the specific discipline."* (p. 91).[128] So in short technical skill means being able to work with *things*.[129] The intensity, respectively importance, of this skill declines with the promotion to higher management levels. The reviewed ability is most important at supervisory levels and least important at the top management level.[130]

Human skill

In contrast to the technical skill, the human skill *"is concerned with working with people"* (p. 91).[131] The human skill is based on the ability to work well with subordinates, superiors and peers. Furthermore this skill makes it possible for the leader to empathically feel, respectively recognize, how he has to treat and perceive the opinions of his opposite.[132] Katz (1974) delineated the administrator (i.e., leader) possessing the human skill as following

"Such a person works to create an atmosphere of approval and security in which subordinates feel free to express themselves without fear of censure or ridicule, by encouraging them to participate in the planning and carrying out of those things which directly affect them."(p. 91).[133]

The leader who is blessed with this ability is able to work with always altering individuals and groups. For him it is important to see and know the different perceptions and beliefs of superiors, subordinates and peers in his organization.[134] The human skill has to be developed naturally and has to be, even unconsciously, always demonstrated in any situation, since any demonstration of this skill can have an impact on the effectiveness of organizational decisions.[135] In opposite to the technical skill, which is most important at lower management levels, the human skill

[127] See: W. Glenn Rowe and Laura Guerrero, Cases in Leadership, (2011).
[128] See: Katz R. (1974).
[129] See: Katz R. (1974).
[130] See: Northouse P. G. (2004).
[131] See: Katz R. (1974).
[132] See: W. Glenn Rowe and Laura Guerrero, Cases in Leadership, (2011).
[133] See: Katz R. (1974).
[134] See: Northouse P. G. (2004).
[135] See: Katz R. (1974).

is absolutely necessary at all management levels, since a leader must be able to convey his visions to his subordinates, superiors and peers.[136]

Conceptual skill

The conceptual skill involves the abilities necessary to work *“with ideas”*; it includes the freeness to talk about ideas, to ask hypothetic questions and to assess the organizational opportunities within this framework. Moreover this skill enables the leader to create a vision and to implement it in the organization’s strategic plan.[137]

The leader must be able to understand the big picture, that an organization is built on many bricks, like the organization and its employees, the industry itself, the political situation, economic forces and the community. Just like Katz (1974) quoted in his article

“Recognizing these relationships and perceiving the significant elements in any situation, the administrator (i.e., leader) should then be able to act in a way which advances the over-all welfare of the total organization.” (p. 93).[138]

The conceptual skill can be helpful at any management level, since it is always important to evaluate the impact of different factors on organizational goals. However this ability is absolutely essential at the top management level, where the indicatory decisions for the organization are made.[139]

Katz’s article was after 1955 again published in 1974 by the Harvard Business Review with a retrospective commentary on the earlier article. In this retrospective commentary he mentioned that a leader needs to display the three skills at every management level, since even managers at lower levels use these skills in any or other way. Furthermore he believes that the technical skill is still important at the top level, if the manager is working in a smaller organization. Besides that he would now split the human skill into two kinds of skill namely in *“(a) leadership ability within the manager’s own unit and (b) skill in intergroup relationships”*, since in his opinion, *“outstanding capability in one of these roles is frequently accompanied by mediocre performance in the other”* (p. 101).[140]

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[136] See: W. Glenn Rowe and Laura Guerrero, Cases in Leadership, (2011).
[137] See: Northouse P. G. (2004).
[138] See: Katz R. (1974).
[139] See: W. Glenn Rowe and Laura Guerrero, Cases in Leadership, (2011).
[140] See: Katz R. (1974).

Mumford's skill model of leadership

At the beginning of the 1990s a group of researchers around Mumford together with the U.S. Army and the Department of Defense developed a skill theory, which is based on problem-solving skills. They conducted a study with 1,800 participants representing six grade levels of the army, from second lieutenant to colonel. The goal of the study was to identify the necessary leadership factors, which are leading to excellent job performance in a specific organization. The gathering of data from the study took years and in the end Mumford and Colleges finally formulated a skill-based model of leadership in 2000.[141] In the upcoming section the skill-based model of leadership by Mumford, Zaccaro, Harding, Jacobs and Fleishman (2000) is presented in more detail.

The basics to the model

In some way the skills model of leadership by Mumford and his colleges is an extension of Katz's three skills approach, since conceptual skills play an essential role in both models. Furthermore they both convey that *"human skills"* respectively *"social judgment skills" are* inevitable for effective leadership outcomes.[142] Still, the absolutely essential difference of the two models is that the skill-based model of leadership by Mumford and his colleges (2000) is a *"Capability Model"* described as following by the researchers *"[…] for understanding leader performance in organizational settings, considering both skill and knowledge requirements, as well as the development and expression of those capabilities over the course of leaders' careers."* (p. 12).[143]

As already mentioned, when describing Katz's three skills approach; the skill models are based on the theory that every person can become a leader, if he or she is able to learn from his or her experience and is able to acquire knowledge. Hence leaders are not born with the traits that make effective leaders, but they can develop their abilities to become more effective leaders.[144]

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[141] See: Northouse P. G. (2004).

[142] See: Northouse P. G. (2004).

[143] See: Mumford, Micheal D., Zaccaro, Stephen J., Harding, Francis D., Jacobs, T. Owen, Fleishman, Edwin A. (2000).

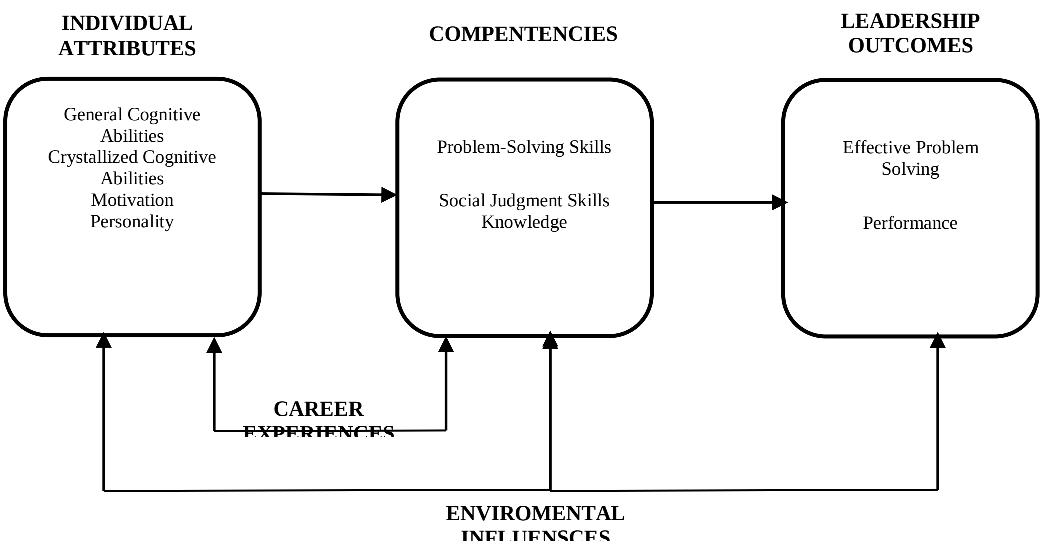
[144] See: W. Glenn Rowe and Laura Guerrero, Cases in Leadership, (2011).

Different to Katz's three skills approach the skill-based model of leadership by Mumford, Zaccaro, Harding, et al. (2000) is based on five different elements: *a) individual attributes, b) competencies, c) leadership outcomes, d) career experiences and e) environmental influences*.[145]

In the upcoming section the five components of the skill-based leadership model are delineated in more detail. Moreover the corresponding interrelations between the elements are explained within the text, and even shown in a figure for a better comprehension.

Before starting it is necessary know, that the competencies are the most important element of the model, since they are influenced by and are influencing the other factors.

Figure 2: **The skill-based model of Leadership.**



Source: Adopted from the Influence of Leader Characteristics on Leader Characteristics on Leader Performance in *"Leadership Skills for a Changing World: Solving Complex Social Problems"*, by Mumford, Micheal D., Zaccaro, Stephen J., Harding, Francis D., Jacobs, T. Owen, Fleishman, Edwin A., *Leadership Quarterly*, 11 (1), p. 23, 2000.

The main goal of this model is effective problem-solving by the leader within an organization, so that in the end the leadership outcome is excellent. A leader faces

[145] See: Northouse P. G. (2004).

many problems and most at the time these are unusual, new and complicated problems. In order to implement a suitable and viable plan he must possess certain abilities.[146]

The Competencies

The Competencies are composed out of three skills: *a) problem-solving skills, b) social judgment skills, and c) knowledge*.[147]

Problem-solving skills are necessary to, *"[…] solve novel, ill-defined problems"* (p. 17), as stated by Mumford, Zaccaro, Harding et al (2000). This kind of problems cannot be solved by the known routines; instead the leader has to derive the solution from his already acquired experience and knowledge by reshaping and reforming it.[148]

By displaying this skill the leader is able to define significant problems, to gather information, to understand the problem and in the end to formulate a solution plan for the problem. The leader is aware of his leadership capacities and can therefore apply it to the new and ill-defined problems. He can estimate the influences on career and organizational goals; moreover he can assess the effects on the short-term and long-term goals.[149]

The ***Social Judgment Skills*** make it possible for the leader to work with others, to understand them and their social systems. This skill is necessary to convince others of necessary changes, to get them to support and contribute to solving organizational problems.[150]

The social judgment skills are composed out of four elements:

a) *"**Perspective taking** means being sensitive to other people's perspectives and goals – being able to understand their point of view on different issues."* (p. 42)[151]

b) *"**Social perceptiveness** is about leaders knowing what people will do when confronted with proposed changes."* (p. 84)[152]

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[146] See: Mumford, Micheal D., Zaccaro, Stephen J., Harding, Francis D., Jacobs, T. Owen, Fleishman, Edwin A. (2000).

[147] See: Northouse P. G. (2004).

[148] See: Mumford, Micheal D., Zaccaro, Stephen J., Harding, Francis D., Jacobs, T. Owen, Fleishman, Edwin A. (2000).

[149] See: Northouse P. G. (2004).

[150] See: W. Glenn Rowe and Laura Guerrero, Cases in Leadership, (2011).

[151] See: Northouse P. G. (2004).

c) *“**Behavioral flexibility** means being capable of changing behavior in accordance with the demands of the situation.”* (p. 20). *“They (leaders) must also adjust their behavior to cope with the requirements imposed by their perceptions of others.”* (p. 19).[153]

d) *“**Social performance** means being skilled in several leadership competencies. Some of these are abilities in persuading and communication in order to convey one’s own vision to others in the organization […].”* (p. 84).[154]

Knowledge is the ability to accumulate information and to organize it in mental structures called schema (i.e., diagrammatic representations or depiction).[155] As quoted by Rowe and Guerrero (2011) *“more knowledgeable leaders are able to consider complex organizational issues and to develop alternative and appropriate strategies for change.”* (p. 84).[156]

<u>The Individual Attributes</u>

The individual attributes are very important as the leader moves up in the organization, since the problems at every higher level become more complex. This component consist out of 4 elements, namely a) general cognitive ability, b) crystallized cognitive ability, c) motivation and d) personality, and have a huge impact on competencies and in the end on the leader’s performance.[157]

a) *“**General Cognitive Ability** can be thought of as a person’s intelligence; it includes perceptual processing, information processing, general reasoning skills, creative and divergent thinking capacities, and memory skills.”* (p. 44). The individual’s general cognitive ability grows overtime reaches his peak in early adulthood and then starts declining.[158]

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[152] See: W. Glenn Rowe and Laura Guerrero, Cases in Leadership, (2011).

[153] See: Mumford, Micheal D., Zaccaro, Stephen J., Harding, Francis D., Jacobs, T. Owen, Fleishman, Edwin A. (2000).

[154] See: W. Glenn Rowe and Laura Guerrero, Cases in Leadership, (2011).

[155] See: Northouse P. G. (2004).

[156] See: W. Glenn Rowe and Laura Guerrero, Cases in Leadership, (2011).

[157] See: Northouse P. G. (2004).

[158] See: W. Glenn Rowe and Laura Guerrero, Cases in Leadership, (2011).

b) *"**Crystallized Cognitive Ability** is acquired intelligence – the ideas and mental abilities people learn through experience."* (p. 45).[159] This type of intelligence doesn't decline as we get older; it stays quite stable for a lifetime.[160]

c) ***Motivation*** consists of three aspects, which are absolutely necessary to develop leadership skills. *"First, leaders must be willing to tackle difficult, challenging organizational problems, […] second, leaders must be willing to exercise influence (dominance), […] coupled with a third motive – social commitment."* (p. 22).[161]

d) *"**Personality** […] placed where it is in the model, this attribute reminds us that our personality has an impact on the development of our leadership skills."* (p. 46).[162] Some characteristics that influence the development of leadership skills are openness, confidence and independence.[163]

<u>The Leadership Outcomes</u>

The effective use of the competencies can be shown by the leadership outcomes. If leader apply these competencies they increase the chances of solving a problem and improving the overall performance.[164] Hence, leadership outcomes are composed out of a) effective problem solving and b) performance.

a) As already mentioned the skill-based model is a capability model, because it explains the "[…] *variation in the abilities of leaders to solve problems."*(p. 85). Therefore a leader exhibits ***effective problem solving*** skills, when he is developing unique and high-quality solutions for the organizational problems.[165]

b) *"In the model, **performance** outcomes refer to how well the leader has done her or his job."* (p. 46). If the leader has found the right solutions to solve the unique problems of the organization and convinced his subordinates and peers that he has done a good job. Then he will receive good reviews by his surrounding, since he successfully performed his job.[166]

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[159] See: Northouse P. G. (2004).
[160] See: Glenn Rowe and Laura Guerrero, Cases in Leadership, (2011).
[161] See: Mumford, Micheal D., Zaccaro, Stephen J., Harding, Francis D., Jacobs, T. Owen, Fleishman, Edwin A. (2000).
[162] See: Northouse P. G. (2004).
[163] See: Mumford, Micheal D., Zaccaro, Stephen J., Harding, Francis D., Jacobs, T. Owen, Fleishman, Edwin A. (2000).
[164] See: Northouse P. G. (2004).
[165] See: Glenn Rowe and Laura Guerrero, Cases in Leadership, (2011).
[166] See: Northouse P. G. (2004).

All in all leadership outcomes are two ways in measuring, if the leader was effective.

The Career Experiences

The acquisition of knowledge and skills is based on career experience. These through career experience shaped abilities are necessary for problem solving. The most important types of experience mentioned by Mumford, Zaccaro, Harding et al. (2000) are a) job assignments, b) mentoring, c) appropriate training, and d) hands-on experience.[167] Northouse (2004) highlighted something very important for the upcoming part as following *"So the skills and knowledge of leaders are shaped by their career experience as they address increasingly complex problems in the organization."* (p. 48).[168] This statement in some way will be important for the economists view on leadership.

The Environmental Influences

The last but not least component is the environmental influence. This factor exerts influence on all other facets of the skill-based model by Mumford and his colleges. Environmental influence captures everything that lies outside the leader's skills, whether it might be the aging factory, low levels of subordinates' skills or the economy. The model just acknowledges the existence of environmental influences, but doesn't attempt to give a full list of specific environmental influences.[169]
After this review of leadership skill approaches, the next section is concentrating on economic approaches toward leadership. Still the abilities will be important in some or the other way.

Setting the course for an economic leadership approach

"Leadership" so far was described by many disciplines such as psychology or sociology, still the economic theory of "Leadership" was in a long time coming. The economists neglected this topic for quite a while; however there are still some

[167] See: Mumford, Micheal D., Zaccaro, Stephen J., Harding, Francis D., Jacobs, T. Owen, Fleishman, Edwin A. (2000).
[168] See: Northouse P. G. (2004).
[169] See: Glenn Rowe and Laura Guerrero, Cases in Leadership, (2011).

interesting economic contributions to the leadership theory. The economists' research approaches are deferring from incomplete contract setting, over incentive problems to solving coordination problems.[170] The upcoming passage is supposed to give a brief chronological overview of the more known economic leadership theories; it is not a complete list of economic leadership papers and theories.

The Economists view on leadership (entrepreneurship)

Entrepreneurship in Economic Theory by William J. Baumol (1968)

William J. Baumol is professor emeritus at the Princeton University and has written various papers and books capturing economic topics. His main research topic is entrepreneurship, further more he is the former president of the American Economic Association.[171] Although he is writing about entrepreneurship, his definition of an entrepreneur is still reflecting today's sight of a leader.

"The entrepreneur has a different function. It is his job to locate new ideas and to put them into effect. He must lead, perhaps even inspire; he cannot allow things to get into a rut and for him today's practice is never good enough for tomorrow." (p. 65)[172]

Baumol mentions in his paper "Entrepreneurship in Economic Theory" the apparent fact that the entrepreneur is losing on importance, stated as following*"[…] at the same time (he) virtually disappeared from the theoretical literature"* (p. 64). By this phrase he condemned the fact that the economic theory was not able to develop a *"formal analysis of entrepreneurship"*, since it is obvious that not the complete growth of a nation can only be explained by capital accumulation and a larger labor force. The entrepreneur didn't fit in a mathematical model, so he was left out. There were many variables, which were supposed to maximize the profit, but not the important decisions made by the entrepreneur. Baumol acknowledged in his paper the research efforts of the other research disciplines (sociology, psychology); still he hoped that the economic research would recognize the importance of entrepreneurship, which is showed by the following quote *"I remain convinced that*

[170] See: An economic theory of leadership by Mana Komai, (2004).
[171] See: Information from the Stern School of Business at New York University (2012).
[172] See: William J. Baumol, Entrepreneurship in Economic Theory, (1968).

encouragement of the entrepreneur is the key to the stimulation of growth." (p. 71).
[173]

Moral Hazard in Teams by Bengt Holmstrom (1982)

Bengt Holmstrom is economics professor of at the well known Massachusetts Institute of Technology and with his paper "Moral Hazard[174] in Teams" he provided in some way a basis for studying leadership by addressing the topic of incentive problems. Holmstrom mentions the book "Limits to Organization" by K. Arrow from 1974, by stating that *"[…] traditional theory pays little or no attention to the role of information, which evidently lies at the heart of organizations"* (p. 324). Consequently it is important to be aware of the different and limited information levels possessed by the principal and the agents.[175]
Still it is necessary to be able to set incentives for reaching the best performance. Since the principal (leader) is sharing in the team's output, *"she has an incentive to exaggerate the value of effort devoted to the common activity"* (p. 1189). On the other side the principal (leader) needs to induce the voluntary compliance of the followers, since *"the information structure limits the leader's ability to coerce followers"* (p. 1189).[176] Holmstrom's team model was the basis for the theory by Benjamin E. Hermalin.

Corporate Culture and Economic Theory by David M. Kreps (1990a)

Kreps paper is not directly about leadership, since it concentrates on the corporate culture of an organization and how it may be build or explain a firm's reputation. Still, in some way it is making a provision for leadership.[177] The following citation quotes it quite sententiously:

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[173] See: William J. Baumol, Entrepreneurship in Economic Theory, (1968).
[174] *„Moral hazard refers to the problem of inducing agents to supply proper amounts of productive inputs when their actions cannot be observed and contracted for directly."* (p. 324), from the paper "Moral Hazard in Teams" by Bengt Holmstrom, 1982, The Bell Journal of Economics, Vol. 13, No. 2.
[175] See: Bengt Holmstrom (1982).
[176] See: Benjamin E. Hermalin (1998).
[177] See: Nicolai J. Foss (2000.)

"The organization, or, more precisely, those in the organization who have decision-making authority, will have an interest in preserving or even promoting a good reputation to allow for future beneficial transactions." (p. 93)[178]

The paper by Kreps is basing on incomplete contract setting and because of this fact Kreps is arguing that there is a need of implicit contracts. Due to unforeseen contingencies *"[…] it is not clear how implicit contract should be administrated"* (p. 4), therefore *"the possible role of leadership in this setting is to provide general principles (i.e., focal points), that instructs employees and suppliers about how unforeseen contingencies will be handled in the future by management"*. (p. 4).[179]

In conclusion leadership is necessary to build a corporate culture and to foster the relationship between the leader and employee. So that in the end there is a culture where following is induced and new ideas necessary for an efficient company are developed.

<u>Leadership Style and Incentives by Julio J. Rotemberg and Garth Saloner (1993)</u>

The leadership theory by Rotemberg and Saloner is studying the question of the optimal leadership style and is providing an economic model that is supposed to show the effect of leadership style on a firm's profitability. Their conclusion to why leadership style is important is as following:

"[…], when the firm wants employees to generate proposals for change they confront a difficult incentive problem. We argue in this paper that the personality of the leader affects both the management style and the ease with which this incentive problem is overcome" (p. 1300).

They believe that in firms were there is a huge potential for new ideas a more empathic leadership style will maximize the firm's profit. Moreover they suggest that in such environments it is *"more important to provide incentives to employees to ferret out those ideas"* (p. 1300) by a leader, *"who experiences vicariously the happiness of his subordinates"* (p. 1300).

Their research is viewing the leadership style as it was depending on the personality of the leader, since for them this approach is more straightforward. Anyway empathy for them is an important trait, since it can serve as a commitment advice.

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178 See: David M. Kreps (1990a).

179 See: Nicolai J. Foss (2000.)

In conclusion they state that the corporate culture of the organization is affected by the leadership style and this again has an effect on the employee's believes how he will be treated within the company. In summary, it can be said that an empathic leader will achieve higher profits in an environment, which is rich in new and innovative ideas and that autocratic style (the leader cares only about profits) works best in an environment that is poor in new ideas.[180]

Toward an Economic Theory of Leadership: Leading by Example by Benjamin E. Hermalin(1998)

Hermalin, who holds professorships in the Economics Department and the Berkeley's Haas School of Business[181], defines a leader as following *"a leader is someone with followers"* (p. 1188).[182] He distinguishes the inherently and voluntary activity of following from formal authority. Since, he believes that a leader should be capable of inducing others to follow, without exerting his formal authority. So for his economic theory of leadership the central question is *"How does a leader induce others to follow?"*(p. 1188). The reason why he believes that followers decide to follow the leader is, because the followers may think that the leader has better information about what the followers should do. And they need the additional information, since it is in their interest to have it. Obviously leadership is in part about transmitting correct information and convincing the followers that it is the correct information. Hermalin is describing to ways of doing so the first is *"leader sacrifice"*, *"the leader offers gifts to the followers (e. g., free coffee or pizza for working into the evening)"* (p. 1189). The followers feel that their work is considered worthwhile by the leader's sacrifice, and so they put more effort into the activities, not because they want the leader's gifts. The other way for inducing followership is *"leading by example"*. In this case the leader himself is working harder and longer hours and *"thereby convincing followers that she indeed considers it worthwhile"* (p. 1189). Hermalin showed with his analysis of the two signaling methods (leading by sacrifice and leading by example) that signaling by example is superior to signaling by sacrifice, since it is a productive action (leader is working too harder and not only offering gifts). The research by Hermalin is concentrating on how a leader can induce followership. Still the theory is

[180] See: Rotemberg and Saloner (1993)
[181] See: Information from the Berkeley's Haas School of Business (2012).
[182] See: Benjamin E. Hermalin (1998).

not explaining why some people become leaders, what traits maybe make them leaders and what influence cultural context has on leadership.[183]

Lazear's personnel economic approach of leadership

So far the economic literature review of leadership approaches was concentrating on incomplete contract settings (Kreps 1990a, Rotemberg and Saloner 1993), on team models, incentive problems and complete contracts (Holmstrom 1982, Hermalin 1998). The other disciplines reviewed were focusing on traits, behavior, contingencies and transformation. All these theories answer and raise questions and no approach is satisfying in every aspect by which the "phenomenon" leadership could be described (e. g., what trait does a leader need? Which leadership style is most effective? What defines a leader? Which skill must a leader poses? Is leadership dependent on external contingencies?)

Lazear's leadership approach is too not giving a full set of answer to all the open questions. Still, it offers some facts about leadership, which are plausible and simple, but on the other hand very powerful. Edward P. Lazear is Jack Steele Parker Professor of Human Resources Management and Economics at the Graduate School of Business at the Stanford University. He was founding Editor of the Journal of Labor Economics and has published several papers in such journals as the American Economic Review and the Journal of Political Economy.[184]

By analyzing the unique data from Stanford Master of Business Administration (MBA) alumni he compiled some hypotheses and most of them were proofed to be right. The survey resulted in a sample of about 5000 respondents, which were used for compiling a detailed job history for each respondent. The collected data included further information like *"job titles, industry, firm size, starting and ending salaries, work periods and student transcripts".* Obviously it is unnecessary to especially mention that the collected data has one big disadvantage, which is that the Stanford MBA program is one of the most selective programs. Therefore it is logical that the respondents are at the top of the ability level.[185] However there are other empirical tests with different data, which are confirming the theory.

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[183] See: Benjamin E. Hermalin (1998).

[184] See: Information about the author on Stanford University Homepage, CV (August 2011).

[185] See: Lazear E. P. (2012).

Lazear is building his theoretical analysis on three implications:

1. *"Ability and visibility, manifested in number of contracts made per time interval, are complements. Consequently, future leaders should be found in the most visible jobs."*

2. *"The most able leaders are found in the highest variance industries."*

3. *"Leaders are generalists."* (p. 93)[186]

In 2004 Lazear already wrote the paper "Balanced Skills and Entrepreneurship" published in the American Economic Review were he addressed the topic that an entrepreneur should be a *"Jack-of-All-Trades"*. His theory proofed that an *"entrepreneur must be good at a number of different skills to put a business together"* (p. 208).[187] On the opposite a specialist must be only good at one skill to be efficient in his job, since it is less likely that he will become an entrepreneur.[188]

In Lazear's theory the generalist is developing two skills namely skill *a* and skill *b*, whereas the specialist is only developing the one or the other. So the most able leaders are generalists, who are able to balance best these two skills. With this generalized knowledge they can split problems and assign them to employees, who are best at solving it. The general skills are measured by the prior roles an individual had prior an employment event. So, the more roles a person occupied the higher is the probability, about one-fifth, of being in a C-level position[189]

Lazear further mentions that *"the most able leader will seek out occupations, industries and firms, where the impact of correct decisions are greatest"* (p. 94), since the gain in high variance industries is much higher. Whereas less able individuals will prefer firms were false decisions do not matter very much.[190]

The next implication is that the most able leaders seek visibility. The leader is putting himself in observable situations, so that his decisions are visible to others. By doing so he wants to show that his knowledge base is higher than the one of other individuals, as a consequence of this visibility he is acquiring followers.[191]

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[186] See: Lazear E. P. (2012).
[187] See: Lazear E. P. (2004).
[188] See: Lazear E. P. (2005).
[189] See: Lazear E. P. (2012).
[190] See: Lazear E. P. (2012).
[191] See: Lazear E. P. (2012).

The survey was able to match transcripts for individuals, who were in school during the 80s and 90s, to their job histories. He investigated, if a more specialized curriculum would predict leadership or not. The evidence showed that individuals, who had a more general and varied transcript at Stanford were more likely become leaders.[192]

<u>Partial Empirical tests of Lazear's leadership theory</u>

The article *"Testing Lazear's jack-of-all-trades view of entrepreneurship with German micro data"* by J. Wagner published in the Applied Economic Letters tested the part of the theory, where it is said that having competences in many skills results in a higher probability to be a leader (self-employed). The empirical data is from a survey of the working people conducted in Germany between October 1998 and March 1999. From 33.633 individuals 9.36 % were self-employed; on this fact the author based his empirical-test of Lazear's theory. By implementing two variables the interviewee's breadth of experience is proxied. The two variables are:

1. *"[…] the number of different kinds of professional training after completing school"*
2. *"[…] the number of times an interviewee changed her or his profession"* (p. 687)[193]

The test shows that higher numbers in both professional trainings and changed professions lead to a higher probability of being self-employed. The more professional trainings an individual has the higher the probability for self-employment (raising by 3 % per extra professional training). The number of times an interviewee changed her or his profession has a smaller impact on self-employment, "[…] *but still significant in an economic sense"* (p. 689).[194] In conclusion it can be stated that Lazear's jack-of-all-trades theory is working even for the German data, where the survey did not only concentrate on individuals with high ability levels as the Stanford alumni.

A further paper testing the theory was entitled "*An empirical test of Lazear's leadership theory using evidence from Ghana"* by Oliver Masakure published in the Applied Economic Letters. He used data from a cross-sectional labor force survey in Ghana during 2003 and 2004. The data, *"on occupational history of the respondents*

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[192] See: Lazear E. P. (2012).
[193] See: Wagner J. (2003).
[194] See: Wagner J. (2003).

since they left school and when they started and ended job spells" (p. 80), was collected from 1165 individuals in households and 695 workers in manufacturing firms. The author tested, if skill acquisition had an impact on leadership propensity. The results showed that the amount of prior roles has a positive and statistically significant suggesting for the probability of being in a leadership position. Furthermore he notes that managers in larger firms can acquire higher skill diversity than at any other firm size. In sum this test again is proofing Lazear's theory, that leaders are generalist and that different job roles and the with it experience are raising the propensity of becoming a leader. The leadership theory holds too for the Ghana working population as it does for the Stanford MBA graduates.[195]

The cultural differences influencing leadership

A little story sententiously showing the effect of different cultures on leadership is the following. An engineer coming from Germany started to work as expatriate in Abu Dhabi. He was received very friendly by the locals the only problem he had was that, when he called a meeting at a special time there was nobody coming. Once he asked a Co-worker why this happened, the answer was quite simple. The workers were gone off to pray, since the engineer accidentally called the meeting at the same time as the praying time of the Muslim workers. The lesson learned was to call meetings in between the 5 prayers of the Muslim workers.

This little story is very simple, but it is still showing how culture can influence the smallest part of a working situation.

The papers on the cultural differences influencing leadership have become a large research body, especially since there is no universal leadership definition and leadership is studied by different disciplines from different sides. In the end the cross-cultural component can make it more complex.[196]

The cross-cultural effects on leadership

Cross-Cultural Leadership can be defined by the following quote *"This term refers to leadership in which a leader endeavors to influence the activities and goals of a*

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[195] See: Masakure O. (2012).

[196] See: Dickson, Den Hartog, Mitchelson (2003).

culturally diverse group by appealing to their systems of shared knowledge and meaning." (p. 32). The research is trying to discover the similarities and differences between cultures, since these facts can have a moderating effect on the leadership processes and the leader-follower relations. The interest in this research body increased with the globalization and the huge expansion of a large expatriate work force. As already stated by the little story expatriates faced many problems due to the different cultural contexts, this situation increased the demand for a cross cultural leadership theory, since the organizations need to successfully manage international assignments. In the first response, as stated by Pfeifer and Jackson in the book *"Leadership, the Key Concepts",* where they mentioned the paper of Hickson and Pugh from 2001 by the following phrase*"[…] the cross-cultural leadership theorists tended to focus their efforts on providing broad-based descriptions of the characteristics of a particular national culture"* (p. 33). The results were case studies and guidelines telling what do to survive in a culturally different environment. Another research line mentioned in the book was by Dorfman and Howell from 1988 where they concentrated their research on identifying *"the ways in which predominant cultural values moderate leadership behavioral patterns"* (p. 33). This research is describing systematically the cultural differences, categorizing and comparing it. A further, research body is identifying and defining *"[…] prototypes or profiles of outstanding leadership that might be distinctive to specific national cultures"* (p. 33). The prototypes are described by attributes that are for example necessary for an effective business leader.[197]

The largest research body of cross-cultural leadership is without exaggeration the GLOBE (Global Leadership and Organizational Behavior Effective) Project, which is led by Robert House. The Projects consist out of over 180 researchers from all over the world collecting data from over 60 countries about *"[…] interacting effects of leadership, societal culture and organizational culture"* (p. 731).[198]

Similarities and Differences concerning leadership in different cultures

For example the GLOBE Project stated in 1999 that *"[…] selected cultural differences strongly influence important ways in which people think about leaders and norms concerning the status, influence, and privileges granted to leaders"* (p. 2).

[197] See: Marturano, A. and Gosling, J. (2008).

[198] See: Dickson, Den Hartog, Mitchelson (2003).

Furthermore they found that charismatic and team-oriented leadership is universally endorsed. Additionally to that they mentioned *"[…] 21 specific leader attributes and behaviors that are universally viewed as contributing to leadership effectiveness"* (p. 3).[199]

Dorfman et al. studied in 1997 "Leadership in Western and Asian countries: commonalities and differences in effective leadership processes across cultures". They chose the following five countries for their research Japan, South Korea, Taiwan, Mexico and the United States, since they show a considerable cultural variation and the Eastern versus Western work and authority attitudes. The main goal of the empirical test was explore *"[…] the generalizability of leadership behaviors and processes across five nations in North America and Asia"* (p. 233). The leadership behaviors used for the testing were derived from contingency leadership theories. Here leader supportiveness, contingent reward and charismatic had universally positive impacts in all five countries.[200]

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[199] See: House, Hanges, et al. (1999).

[200] See: Dorfman, Howell, et al (1997).

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