CHARISMATIC LEADERSHIP AND POWER: USING THE POWER OF CHARISMA FOR BETTER LEADERSHIP IN THE ENTERPRISES

Prof. KRUME NIKOLOSKI PhD
Faculty of Economics - Stip, Republic of Macedonia
e-mail: krume.nikoloski@ugd.edu.mk

Abstract: The role of the leader is to work with people through his cooperates in order to achieve the goals of the organization. For that aim, he has to understand the human behavior and to be capable of communication, in order to motivate the lead other peoples. The function of management consists of the capability to influence the behavior of individuals and groups on their work. Today’s global business conditions expressed through strong and relentless market competition, technological, information and communication advances and changing consumer behavior, are making difficult the market fight of small and medium enterprises (SMEs). In such difficult conditions for business operation, tangible resources (financial, technological, physical and organizational) are increasingly losing their primacy compared to the invisible (human resources, innovation, reputation) ones. Among invisible, human resources are becoming more important for the survival, growth and development of these enterprises. In order to be a major source of competitive advantage, human resources need to be proactively managed. These points out the need for a leader with charisma, knowledge, skills and abilities in order to lead the employees in achieving the mission, vision and goals of the enterprise. In this point of view, charismatic leader is one that has influence, inspires, motivates and instills confidence among followers. The charismatic leader, thanks to the characteristics that he possesses and which differ him from other leaders, is the key factor for the business success of SME.

Keywords: leader, charisma, power, influence, ethics, competitive advantage, small and medium enterprises

1. Introduction

Charismatic leader use power over followers, but also his/her followers have power over the leader. So, this relation is interactive by its nature. The ethics of charismatic leader is strongly a question of how to use power, i.e. how and in what manner. The aims and vehicles of leading are the main objects, when one evaluates the ethical behavior of the charismatic leader. Perhaps the most suitable positions for analyzing the power of charismatic leader are critical theory and post modernistic view of power. Charisma has different sources and any attempt to pin it down to a specific set of human qualities would be futile. And charisma is not only about words, ideals and getting elected. It can get things done and it is good for business, particularly in the long term. In a current study, we are looking at more than 100 firms over seven years to see how a change in the chief executive affects company performance. We are finding that chief executives who have the capacity to be charismatic and who have the capacity for self-control when it comes to using their power have the highest return on assets and are also more socially and environmentally responsible. Many studies have shown that the ethical orientation of the leader is strongly related to follower job satisfaction and organizational commitment. Charismatic leaders who are high on ethical orientation have better workplace environments with reduced interpersonal and workplace deviance. This all makes sense because leaders are role models; how they act cascades through the organization. Charisma can be harnessed not only for economic ends; it can also be used to do well and make organizations places where individuals can flourish. The more turbulent the economic situation, the more individuals want to be led by a leader who can reassure them, give them hope and point the bow in the right direction.

In this case, leader with charisma emerges as an imperative for the competitiveness not only for large, but also for small and medium enterprises. The
challenges brought by globalization require better, faster and more efficient response of all enterprises in order to preserve and enhance their competitive position. In this regard, the employees, especially the leader, have become a key source of competitive advantage for enterprises. The leader with charisma is the person who has the ability to create a strong belief in his own vision among employees. According to our research, transformational leadership and transactional leadership based on awards and praise have a positive impact on the effectiveness of the enterprise, while transactional leadership based on preventive corrective measures or interventions after the occurrence of deviations have a negative impact, especially in small and medium enterprises. This suggests the need for a gradual acceptance and implementation of transformational and charismatic leadership to a greater extent by these enterprises.

2. Definitions of charisma and charismatic leadership

The study of charisma and the difference views of authors have given charisma different definitions.

1. A certain quality of an individual personality by virtue of which he or she is set apart from ordinary people and treated as endowed with supernatural, superhuman, or at least specifically exceptional powers or qualities (sexist language changed), (Max Weber).

2. A devotion to the specific and exceptional sanctity, heroism, or exemplary character of an individual person and of the normative patterns revealed or ordained by that person (Max Weber).

3. Endowment with the gift of divine grace (Bernard M. Bass).

4. The process of influencing major changes in the attitudes and assumptions of organization members, and building commitment for the organization’s objectives (Gary A. Yukl).

5. Leadership that has a magnetic effect on people (James M. Kouzes and Barry Z. Posner).

6. In combination with individualized consideration, intellectual stimulation, and inspirational leadership, a component of transformational leadership (Bernard M. Bass, cited in Kenneth E. Clark and Miriam B. Clark).

3. Charismatic leadership and ethical dimensions

In such processes between the leaders and the led ethics and emotions are important. Applied business ethics, in its traditional form, seeks to "say and define" what kind of action Good Business Life is. A tricky issue is that different ethical theories state different criteria, and thus give different and occasionally contradictory solutions to ethical problems. Applied business ethics can be used in the role of a guardian in evaluating which kind of charismatic leadership is "good" or "bad", or "right" or "wrong", when studying its effect on the followers and on society as a whole. But values are both born socially and they die socially. There is no objective measure for value, and not only one right way of defining and explaining charisma. Traditional ethical theories are also rational in the sense that they imply cutting off emotions and the so-called irrational elements of the mind, or in general they do not focus on them. But certainly charismatic leadership involving persuasion and rhetoric between the leaders is emotionally charged. By contextualizing it is possible to break the guardianship and
explore ethical issues in the field by showing the multiplicity and complexity in real-life occurrences of charismatic leadership.

Business ethics is a controversial issue, although it is seen as a vital part of everyday business life. The importance of ethics has usually been justified by suggesting that most people want to live in a society in which justice and charity prevail. Concern for business ethics is also a matter of practical life when the economic system is considered. The economic systems can endure only if they operate in such a way that the majority of the people believe that at least some degree of justice prevails there. If the system lacks legitimacy, it is likely to fail. Conger and Kanungo (1998, 213) refer to Thomas Aquinas, according to whom the moral goodness of behaviors should be judged on the basis of the objective act itself, the subjective motive of the actor, and the context in which this act is performed. Applying this to charismatic leadership, there are three ethical dimensions: the leader’s motives, the leader’s influence strategies, and the leader’s character formation. As further analyzed by Kanungo and Mendonca (1996), charismatic leadership in its positive form is altruistic, influences in empowering ways, emphasizes vision by changing followers’ core attitudes, beliefs and values, and manifests needs that are self-developmental. In negative forms there are egoistic interests, control strategies, needs for personal power, and emphasis on compliance behavior and identification with the leader, that makes the charismatic leadership unethical (Takala, 2007).

4. Power versus influence

Nevertheless, leadership, in general, means the process of ‘influence’ in others’ behavior to achieve goals in which respect their freedom and point of view entirely. It enables the group (managers/employees) to work together in the process of development and exchange towards the vision of success and sustainability.

John Kotter, professor of leadership at Harvard business school, has produced a key work identifying the relationship between modern leadership and the need for power. Entitled power and influence, the book asserts that contemporary pressures are responsible for establishing influencing skills as an imperative for those involved in leadership. As a result of the increasing complexity of the social milieu surrounding organizations, internal relationships have become more diverse, and also more interdependent.

This increase in diversity and interdependence has converted many individual contributor and management jobs into jobs that demand strong leadership - that is, jobs that require jobholders to get things done through others but do not provide control over all those others (Kotter, 1985). These new jobs thus have something of a ‘power gap’ that must be compensated for by the development of advanced skills of influence and persuasion. These skills will help leaders to guide a varied set of employees, both superiors and subordinates, towards desired goals. In order to achieve one’s goals, leaders should focus on values because values essentially make a leader by representing what one is leading (Kotter, 1985).

Power and leadership are closely related: while an individual can wield power without being a leader, an individual cannot be a leader without power. Small-business managers can improve their leadership skills by understanding the sources of power and influence.

According to Northhouse (2010), the concept of power is related to leadership because it is part of the influence process. Leadership is a power relationship that exists between leaders or followers.
Further, power is often defined as the potential ability of one person to influence others to carry out orders or to do something they otherwise would not have done. Other definitions stress that power is the ability to achieve goals or outcomes that power holder’s desire. The achievement of desired outcomes is the basis of the definition used here. Power is the potential ability of one person in an organization to influence other people to bring about desired outcomes. It is the potential to influence others within the organization with the goal of attaining desired outcomes for power holders. Potential power is realized through the processes of politics and influence.

*Hard power* is power that stems largely from a person’s position of authority. This is the kind of power that enables a supervisor to influence subordinates with the use of rewards and punishments, allows a manager to issue orders and expect them to be obeyed. Hard power includes legitimate, reward, and coercive power, which are defined largely by the organization’s policies and procedures. However, it is important to remember that position power and leadership is not the same thing. Effective leaders don’t rely solely on the hard power of their formal position to influence others. *Soft power* includes expert power and referent power, which are based on personal characteristics and interpersonal relationships more than on a position of authority.

<table>
<thead>
<tr>
<th>TYPE OF POWER</th>
<th>BEHAVIOR</th>
<th>SOURCES</th>
<th>EXAMPLES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soft</td>
<td>Attract and co-opt</td>
<td>Inherent qualities</td>
<td>Charisma Persuasion,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Communications</td>
<td>example</td>
</tr>
<tr>
<td>Hard</td>
<td>Threaten and induce</td>
<td>Threats, intimidation.</td>
<td>Promotions, compensation</td>
</tr>
<tr>
<td></td>
<td>Hire, fire, demote</td>
<td>Payment, rewards</td>
<td></td>
</tr>
</tbody>
</table>

Source: Joseph S. Nye, Jr., (2006), Soft Power, Hard Power and Leadership

In this case, influence refers to the effect a person’s actions have on the attitudes, values, beliefs, or actions of others. Whereas power is the capacity to cause a change in a person, influence may be thought of as the degree of actual change. For example, as a child you may have had the experience of playing a game you didn’t really want to play because one person in the group influenced others to do what he or she wanted. Or you may have changed your college major because of the influence of someone important in your life, or shifted your beliefs about some social issue based on the influence of political or religious leaders.

Hard and Soft Leadership Power was noted by Joseph S. Nye of Harvard University. As with all human behavior, some leaders are stronger in one than the other. Balancing hard and soft leadership power requires self-awareness in the leader, situational awareness and attention to the needs of others and of the organization. Nye identified two main hard power resources - coercion and inducement. The tools of those hard power resources include hiring, firing, bullying, buying and bargaining. Research has shown that a calculated loss of temper can be useful at times as it shakes people out of complacency and provides an adrenaline rush. Two other skills are closely related to hard power - organizational capacity and political skill.

* Organizational capacity refers to the ability to manage the structures and reward systems of the organization to
shape and to implement a strategy. For example, aligning hiring, firing, and compensation with the organizational strategy are critical to achieving the strategy. Especially important is effectively managing the flow of information relating to both the inputs and outputs of decisions taken to achieve the strategy.

- Political skill is crucial and complex. Politics can take a variety of forms. Intimidation, manipulation, and negotiation are related to hard power, but politics also includes inspiration, brokerage of new beneficial arrangements, and developing networks of trust typical of soft power. Politics can involve success in achieving goals not just for oneself and a narrow group of followers, but also building political capital for bargaining with wider circles of followers.

In hard and soft leadership power, the two key soft power resources include the inherent personal qualities of the leader and communication. The personal leadership qualities consist mainly of charismatic attraction and emotional inspiration. The communication qualities include persuasion and non-verbal communication. Three skills are particularly important for the soft power part of the equation - vision, emotional intelligence and communication.

- Vision is the ability to articulate an inspiring picture of the future. A vision has to be attractive to various circles of followers and stakeholders, and also sustainable within the organization. One can judge the quality of a vision in terms of whether it creates a sensible balance between realism and risk, and whether it balances objectives and values with capabilities.

- Emotional intelligence is the self-mastery, discipline, and empathic capacity that allows leader to channel their personal passions and attract others. Emotional intelligence must be authentic to be lasting. Because humans focus their attention on the leader, leaders must successfully manage personal impressions through emotional discipline. The success of financial results may depend on the leader exuding the most effective emotion—optimism, tenacity, determination. Mirror neurons in the human brain cause people to imitate the mood of the leader, therefore success may dictate that the leader create the proper emotion because that emotion will cascade throughout the organization.

- The leader has to have the capacity to communicate effectively both by words, symbols, and personal example. If a leader lacks strong public speaking skill, then at least the inner circles of followers needs to be attracted and inspired. Leaders who lack great rhetorical skills can also communicate effectively by example, symbols, actions and organization. A good story is a great source of soft power.

The ability to choose the correct balance of hard and soft leadership power is sometimes referred to as pragmatic leadership. The pragmatic leader consciously choses the most effective method in the given situation.

### 5. The necessity of transforming the transactional in charismatic leadership as a segment of transformational leadership

In terms of intense competition, changing external environment and limited resources, SMEs are faced with the challenge of transforming the transactional in charismatic leadership in order to survive or improve their competitive position on the market. This cannot be achieved without recognizing the fact that although the
reasons for most problems come from external factors, the solutions lie within the enterprise, particularly in motivation, efficiency and commitment of human resources in achieving the vision set by the leader.

The fact is that small and medium enterprises, as well as large enterprises, are primarily focused on survival. But what differs these types of enterprises is that SMEs do not use leadership i.e,laissez-faire leadership or apply transactional leadership which means focusing on short term results, following strict rules, procedures and standards, preferring certainty and consistency, focusing on efficiency (cost reduction), motivating employees through reward and punishment, dominance of mind in decision making. This means that the competitive advantage of these enterprises is based on the basic functions of management, planning (short term), organization and control.

The use of laissez-faire or transactional leadership is effective in cases where the internal and external factors affecting the operations do not change over time, the problems that appear are simple, well known and there are clearly defined ways for solving them (Smith). However, this is not a feature of today's business environment. On the contrary, daily changes in the external environment require appropriate changes by the enterprise in order to maintain or improve its competitive position on the market. Every change begins with the initiative by the leader. Because transaction leader does not want changes, this style proves to be ineffective in today's conditions for business operating of SMEs. Any attempt to change the transaction in transformational or charismatic leader is very difficult and often ends in failure because involves changing the characteristics of the leader as a person, but they are often difficult to change or unchangeable variables (Nikezić, Dašić and Bojić, 2012).

Numerous theoretical and empirical research show that the effectiveness of the enterprise largely depends on the model of leadership implemented. Thus, most of the conducted studies show that there is a greater relationship between transformational leadership and performance of the enterprise whether the goals are set at organizational or individual level (Lowe et al., 1999) compared with transactional leadership. In terms of effectiveness, satisfaction and supernormal effort, laissez-faire model proves to be the least effective and because of that it should be used rarely, the next model is transactional leadership based on passive leaders who intervene after the occurrence of deviations. Namely, this model is useful for large enterprises where the leader controls many followers, but, causes anxiety, hostility and stress if it is used in great extent. Because of this, we recommend its use in combination with transformational leadership as dominant. Transactional leadership based on corrective measures can provide positive performance in situations where risk can be predicted. This can be achieved through constant monitoring of activities that could have a negative impact and their comparison with previously established standards (Bass, 1998).

Studies also show that the turbulent business environment increases the probability of developing transformational leadership because in such rapidly changing environment leader is able to identify the possibility to change the existing situation and create a vision that will be followed by followers. This means that transformational leadership is applicable in organic type of enterprises that are not highly structured, where there is a strong ethical culture and absence of routine tasks. In contrast, transactional leadership is characteristic for stable business environment where the factors of influence are constant or change over long time, which means it is efficient in highly structured enterprises where tasks are routine.

Although turbulent business environment and crises are important
factors for the emergence of transformational leadership, this does not mean that they automatically activate charisma, on contrary, characteristics, values and ideals of the leader are the main sources of charisma (House, 1977).

6. The charismatic leader as a key source of competitive advantage of SMES

As a term, charismatic leadership is mention in 1947 when Weber speaks of charismatic leader as leader with superhuman, supernatural and heroic attributes (Weber, 1947). Unlike Weber who talks about "revolutionary" charisma, later theorists define charisma on a "peaceful" way. Thus, according to Conger and Kanungo (1998) and Sashkin (1998) charismatic leaders are idealized by followers thanks to their numerous features: the ability to inspire, motivate, respect and understand the needs of followers by showing emotions; commitment in achieving the vision; courage to change the state status quo; implementation and use of ethical standards and social responsibility. In essence, charisma means the ability of the leader to inspire, motivate and support the employees, who in turn attain supernormal results neglecting personal goals, problems and difficulties in operation.

Charisma means emotional expression, self-esteem, confidence, determination, internal stability, intellectual stimulation, passion and commitment to his own vision. Charismatic leaders know who they are and what they believe in and have the power to convey confidence in their own vision to the followers.

Charismatic leaders create an atmosphere of change and articulate an idealized vision of a better future. They have an ability to communicate complex ideas and goals in clear, compelling ways, so that people understand and identify with their message. Charismatic leaders also act in unconventional ways and use unconventional means to transcend the status quo and create change. The final quality shared by charismatic leaders is that their source of influence comes from personal characteristics rather than a formal position of authority. People admire, respect, and identify with the leader and want to be like him or her. Although charismatic leaders may be in formal positions of authority, charismatic leadership transcends formal organizational position because the leader’s influence is based on personal qualities rather than the power and authority granted by the organization.

The essence of the charismatic leader is set by Weber (1968), which continues to be supported and strengthened by later authors. It is about three key elements:

1. The existence of vision and mission - Without this element leader cannot be considered as charismatic, regardless of the personal qualities that he possesses (Bryman, 1992 p.41)
2. Possession of outstanding and exceptional qualities, which means confidence, dedication, moral values, faith in its own beliefs (House and Howell, 1992)
3. The power to influence followers, which includes the ability to gain their support and commitment (Conger, 1999)

In 1998, Conger and Kanungo have developed a scale of charismatic leadership consisting of 20 elements. The reliability and validity of the scale have been confirmed by several studies. In fact, the scale includes five factors that determine the extent to which leaders:

1. Recognize and respond to the opportunities and constraints in the environment (eg, recognition of the skills and abilities of employees in the enterprise)
2. Show sensitivity to the needs and desires of the team members (e.g., impact on others through the development of mutual respect and understanding).
3. Spread inspiring vision (e.g., setting motivating organizational purposes)
4. Take a personal risk, in part because of inspiring followers through personal example and
5. Show unconventional behavior (e.g., use of non-traditional means of achieving organizational goals).

These five elements are included in the three phases of this leadership style:

**First stage.** examining and identifying the opportunities and threats in the environment, as well as the needs and desires of employees.

**Second stage.** creating and spreading a vision that matches determined possibilities and preferences.

**Third stage.** implementing the vision taking personal risk and unconventional behavior in order this example to be followed by the followers.

Phases of leadership style

As factors that reinforce the benefits of charismatic leaders appear:

**Crises** - Charismatic leadership is particularly effective after accidents in the workplace. Employees like more leaders that set, monitor and disseminate inspiring vision than leaders that seek and integrate the views of all staff and managers. A leader who is seen during such a crisis as providing a "radical" vision, with a convincing and achievable solution to the crisis, is seen as charismatic. A key aspect of this leadership influence is getting followers to believe in, and passionately embrace, the vision. Newer versions of this theory have developed. They are called "neocharismatic" theories.

**Uncertainty** - The effectiveness of charismatic leadership is greater when the environment is variable and uncertain (strong market competition, frequent changes in legal regulations). In such cases, promoting inspiring vision for the future that will aspire all employees increases the connection between employees and reduces the feeling of insecurity (De Hoogh, et al., 2004). In terms of turbulent environment, the implementation of charismatic leadership by setting guidelines has positive impact on profitability, and thus on the competitive advantage of the enterprise (Waldman, Ramirez, House and Puranam, 2001).

**Need for belonging** - The introduction of charismatic leadership is effective in enterprises where there is no cooperation between employees i.e. they are not related to each other and do not follow rules (Den Hartog, De Hoogh and Keegan, 2007).

These factors are characteristic of today's turbulent business conditions expressed by strong competition, information, communication and technological development, changing consumer needs and demands, which points out the need for development of charismatic leadership as a precondition for greater efficiency, productivity and profitability, i.e. for maintaining and strengthening the competitive position of all enterprises,
especially of small and medium ones considering the fact that they are generators of economic growth and development of any country.

Finally, though Conger (1990) has often described the dark side of charismatic leadership, judging from the research literature, he seems like a lone voice. As the aforementioned examples of charismatic leaders suggest, however, charismatic leadership seemingly can be used for either good or bad ends, depending on one’s perspective and the hindsight of history. It seems obvious that charismatic leadership is neither inherently good nor evil, but the implicit assumption in the literature has been that it is a positive force in organizations.

7. CONCLUSION

The art of Charisma and leadership is to know when to act as a Charismatic leadership and when to act as a leader, when to use authority and when to use influence, when to ask and when to tell, when to take over and when to let go. In every case, it is crucial for leaders and managers to understand the range of influence techniques they can use, know when and how to use them, build their power bases so that they have the capacity to be influential, and sharpen their skills so that they can influence people effectively.

The challenges brought by globalization require better, faster and more efficient response of all enterprises in order to preserve and enhance their competitive position. In this regard, the employees, especially the leader, have become a key source of competitive advantage for enterprises. According to our research, transformational leadership and transactional leadership based on awards and praise have a positive impact on the effectiveness of the enterprise, while transactional leadership based on preventive corrective measures or interventions after the occurrence of deviations have a negative impact, especially in small and medium enterprises. This suggests the need for a gradual acceptance and implementation of transformational and charismatic leadership to a greater extent by these enterprises. Thus, in this paper I wish to argue why Charismatic leadership is such an important driving factor to business prosperity.

8. REFERENCES

   http://ejbo.jyu.fi/articles/0901_6.html