



# A longitudinal study of the effects of charismatic leadership and organizational culture on objective and perceived corporate performance <sup>☆</sup>

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## ABSTRACT

We investigated the combined effects of charismatic leadership and organizational culture on perceived and objective company performance using a longitudinal design. Employees ( $N = 1214$ ) in 46 branches of a large Dutch bank rated branch management on charismatic leadership, organizational culture in terms of work practices, as well as perceived organizational performance. Objective performance data were collected twice, two years apart. The split sample technique attenuated common source bias. Results of structural equation modeling, in which Time 1 financial performance measures were controlled, revealed that charisma increased financial performance; however culture did not do so. Culture and charisma were significantly related to perceived performance, and culture and charisma were interrelated. A longer time interval may be necessary before the effects of culture on financial performance become apparent. The findings are discussed against the backdrop of the value of intangible resources.

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## 1. Introduction

Two types of intangible resources that are regularly noted in the scholarly management literature to explain sustainable firm success are leadership and culture (Schein, 1985). This study explores the questions, do charismatic leadership and organizational culture each add value to a firm's performance, and what is the link between leadership and culture? Leadership has been defined as "the ability of an individual to influence, motivate, and enable others to contribute toward the effectiveness and success of an organization of which they are members" (House, Javidan, Hanges, & Dorfman, 2002, p. 5), and it is thought that organizational culture affects performance through a complex interplay of leadership style, business strategy, and organizational structure and process (Hult, Cavusgil, Deligonul, Kiyak, & Lagerström, 2007). Much of the organizational culture literature blurs the distinction between leadership and culture and leadership content is often included in the operational definitions of culture (Ashkanasy, Broadfoot, & Falkus, 2000; Marcoulides & Heck, 1993). In practice, whereas charismatic leaders can induce change through appealing visions, organizational cultures can, for example, act as barriers against change. These insights make clear that leadership and culture are two sides of the same coin.

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Decades worth of leadership studies have examined the relationship between leadership styles of top management teams and organizational performance. Meta-analyses have shown that leadership is significantly related to desirable organizational outcomes (Judge & Piccolo, 2004; Lowe, Kroeck, & Sivasubramaniam, 1996; Waldman, Javidan, & Varella, 2004; Wang, Oh, Courtright, & Colbert, 2011). There has also been some, albeit limited, empirical support for the effects of culture on organizational performance (Hartnell, Ou, & Kinicki, 2011; Sackmann, 2011; Wilderom, Glunk, & Maslowski, 2000). A recent meta-analysis of the relationship between human resources and firm performance recommended that “one set of processes that might be particularly important to study...is the use of high-performance work practices and systems within organizations...” (Crook, Todd, Combs, Woehr, & Ketchen, 2011, p. 451). A further shortcoming in both the leadership and culture literatures concerns the predominant use of subjective, instead of objective organizational performance measures. This study seeks to integrate the separate lines of research on leadership and culture, and to disentangle the interplay between the two and their effects on organization performance. Objective and subjective measures were used to measure performance and perceptions of organizational work practices were used to measure culture. A longitudinal design was employed so that the causal effects of leadership and culture on objective performance could be investigated.

### 1.1. Charismatic leadership and organizational performance

The meta-analysis by Lowe et al. (1996) has shown that, of the various leader dimensions, charisma has the strongest relationship with leader effectiveness. Charismatic leaders influence employees because they are perceived as strong, effective leaders with appealing visions (Paulsen, Maldonado, Callan, & Ayoko, 2009). According to House's (1977) self-concept theory of charismatic leadership, charismatic leaders articulate a vision that relates followers' self-concepts to their roles within the organization, and followers internalize the values associated with the vision. Charismatic leaders further enhance collective employee efficacy by expressing confidence that followers can accomplish their collective objectives. Fluid speaking styles, symbolic behavior, and storytelling about bold decisions, are important behaviors exhibited by charismatic leaders (Galvin, Balkundi, & Waldman, 2010; Pentland, 2010).

Although there has been ample evidence in the leadership literature of a link between leader charisma and *perceived* organizational performance, there has been much less evidence of a link with *objective* performance measures (Agle, Nagarajan, Sonnenfeld, & Srinivasan, 2006; Elenkov, 2002; Lowe et al., 1996). Lowe et al. (1996) initially reported a meta-analytic mean corrected correlation of  $r = .35$  between transformational leadership and perceived measures of performance. Subsequently, the meta-analysis by Judge and Piccolo (2004) showed that the estimated true score of the link between perceived performance and transformational leadership, of which charisma is a key factor, was  $\rho = .26$ .

The relationship between charisma and objective measures of performance has been less clear. A review of the literature uncovered 11 empirical, published studies that used objective measures of performance—measures such as percentage of goals achieved and profit margin (see Appendix 1). Of these 11 studies, which included 14 operationalizations of objective performance, two studies provided clear evidence of a relationship, seven studies provided tentative evidence, and two studies failed to find a relationship altogether. Only studies 1 and 3 provided unambiguous evidence of a link between charismatic leadership and performance. Both studies used the MLQ to measure charismatic leadership, and their objective performance measures were used internally by the organizations to assess success. Study 1 (Howell & Avolio, 1993) reported that charismatic leadership predicted the percentage of goals that were met within the unit, as measured one year later. Study 3 (Geyer & Steyrer, 1998) reported that a measure of transformational leadership, which also included several charisma items, was positively related to objective long-term performance in 20 banks such as the volume of savings and loans; and to objective short-term performance such as the annual number of insurance products and subsidized housing loans.

A further seven studies provided only tentative evidence of a relationship between charismatic leadership and performance (see studies 2, 4, 5, 6, 7, 9, and 11). Barling, Weber, and Kelloway (1996) used pre- and post-test performance measures of personal loan offerings and credit card sales and found that leaders who received charismatic leadership training performed better than the control group, however the training and control groups consisted of only nine and eleven managers, respectively. Three studies showed that managerial charisma was related to controllable costs, however only in small firms (Koene, Vogelaar, & Soeters, 2002); to stock price returns, but only when business conditions were uncertain (Tosi, Misangyi, Fanelli, Waldman, & Yammarino, 2004); and to profit margins and return on investment, but not sales growth (Waldman et al., 2004). Finally, of the nine charisma scales used in the study by Rowold and Laukamp (2009), only the unconventional behavior scale was related to profit.

The majority of studies cited above were not longitudinal and failed to control for prior objective organizational performance. This is crucial because employees who knew of their organization's objective performance may have attributed more or less desirable behaviors to their leaders than was actually warranted (Rosenzweig, 2007). Similarly, Meindl and Ehrlich (1987) have described a “romance of leadership” effect and have shown that leaders received more credit for favorable organizational outcomes than did other factors. Only studies 4 and 9 controlled for perceptions of prior objective performance. However their results were tentative and conditional. Waldman, Ramírez, House and Puranam (2001) found that charismatic leadership predicted profit margin only when market conditions were uncertain, and Agle, Nagarajan, Sonnenfeld, and Srinivasan (2006) reported that charisma was related to objective measures of past performance such as stock price, return on assets, and sales growth, but not to subsequent objective performance. All in all, actual empirical support for the effect of

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