



Leadership development practice bundles and organizational performance: The mediating role of human capital and social capital[☆]



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ABSTRACT

There is evidence linking a variety of leadership development practices (LDPs) with individual-level leader outcomes. However, both theoretical and empirical work relating bundles of multiple LDPs and organizational performance is lacking in the literature. To address this gap, we proposed and tested a model examining the influence of two LDP bundles on organizational performance, with human capital and social capital as mediators. Differentiation LDPs are aimed primarily at building intrapersonal knowledge, skills, and abilities of leaders, while integration LDPs help build their interpersonal knowledge, skills, and abilities. Utilizing a sample of 223 organizations in a growing economy (India), we found that differentiation LDPs were positively associated with human capital, while integration LDPs positively influenced social capital. Further, human capital mediated the relationship between differentiation LDPs and sales growth. Our study highlights the economic impact of investing in leadership development and the mechanisms underlying the relationship between LDPs and organizational performance.

1. Introduction

Leadership development can be considered a strategic priority for contemporary organizations (McCauley, Kanaga, & Lafferty, 2010). This is because skilled leaders are necessary for the effective design and implementation of business strategy (Augier & Teece, 2009), management of follower attitudes and behaviors (Avolio, Gardner, Walumbwa, Luthans, & May, 2004), regulation of team processes and outcomes (Morgeson, DeRue, & Karam, 2010), and overall organizational performance (Waldman, Ramirez, House, & Puranam, 2001). One indicator of the value placed on leadership development is the reaction of stock markets to the appointment (as CEOs) of ex-managers from organizations that are known for systematically developing their leaders (Lehmberg, Rowe, White, & Phillips, 2009). Also, recent estimates suggest that investments in leadership development have continued through economic cycles, with US firms spending \$13.6 billion on leadership development programs in the year 2012 (O'Leonard & Loew, 2012), and 35% of the firms in Europe and 52% in Asia increased their leadership development budget in 2011 (Global Leadership Forecast, 2011).

Given the widespread perception of the importance of leadership development, it is not surprising that various studies have tried to evaluate the effectiveness of different types of developmental programs and experiences (e.g., the meta-analyses of Burke & Day, 1986; Collins & Holton, 2004; Powell & Yalcin, 2010). These results suggest that individual managers experiencing developmental assignments and participating in various developmental programs including formal training, mentoring, and action learning acquire a variety of managerial skills (Dragoni, Tesluk, Russell, & Oh, 2009; McCauley, Ruderman, Ohlott, & Morrow, 1994). In other words, leadership development practices (LDPs) appear to indeed help individual managers become better leaders, and the relative effectiveness of various LDPs in this regard continues to be explored (Day & Dragoni, 2015).

However, to date, the effects of LDPs on organizational performance remain largely unexplored, both theoretically and empirically (Collins & Holton, 2004; Richard, Holton, & Katsioloudes, 2014). For instance, a search for the term “leadership development” in the abstracts of seven journals that publish leadership-relevant articles (Academy of Management Journal, Human Resource Management, Human Resource Management Journal, Journal of Applied Psychology,

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Journal of Management, Leadership Quarterly, and Personnel Psychology) published during the last decade (2006–2016) reveal 12 quantitative articles, excluding meta-analyses. Of these, only one article, which aims to predict the types of LDPs that firms adopt, appears to focus on multiple LDPs at the organization-level of analysis (Caligiuri & Colakoglu, 2007). Further, there is a dearth of studies estimating the financial impact of LDPs (cf. Avolio, Avey, & Quisenberry, 2010; Richard et al., 2014). These gaps can be considered deficiencies in the literature given the role of leaders in influencing “the way inputs are combined across different levels of analysis to produce unit outputs, often by influencing the actions of others” (Dinh et al., 2014; p. 43). This is because the development of leaders can influence how they mobilize or orchestrate human resources and other resources and influence important organizational outcomes.

In other words, while there is good evidence that LDPs can make individual managers better leaders, there is much less work on whether and how LDPs contribute to organization-level performance. We target that gap in the literature in the current study. Drawing on multiple LDPs that are most commonly employed in the leadership development literature on the individual level of analysis, we examine how the implementation of bundles of LDPs by organizations influence organization-level constructs such as human capital, social capital, and, ultimately, organization-level performance. We test our hypotheses utilizing data collected from 223 organizations operating in India, a fast-growing economy where leadership development is becoming a significant priority. Our findings suggest that cross-organizational variance in LDPs is another important piece of the story about how people management contributes to organizational performance and, perhaps, to competitive advantage. We begin by briefly reviewing insights from the extant leadership development literature.

2. Insights from the individual-level leadership development literature: rationales for bundling LDPs

Leadership development is itself an extensive subset of the voluminous leadership literature, which spans the management, psychology, and education fields. Although it is generally accepted that leadership development can be effective, the leadership literature has been home to a protracted debate about the degree to which leadership can be cultivated through LDPs. We will not engage in that debate here, which is peripheral to our research question and lies beyond the scope of this paper. Rather, to apply leadership development insights to the organization level, we must consider two related questions: Firstly, what are the dimensions of leadership development? Secondly, which LDPs (related to these dimensions) should be bundled together to influence organizational performance? Fortunately, previous publications in the individual-level leadership development literature address each of these questions. We will briefly describe those two sets of findings, in turn.

2.1. What are the dimensions of leadership development?

In reviewing the leadership development literature, Day and Dragoni (2015) suggest that leaders develop over time along two dimensions: the intrapersonal dimension and the interpersonal dimension. Issues related to intrapersonal development include developing human capital, such as cognitive, meta-cognitive, and behavioral skills that leaders acquire when moving into higher level leadership positions (e.g., Mumford, Campion, & Morgeson, 2007), psychological processes, such as identity and self-regulation (Lord & Hall, 2005), and the role of learning from previous experiences, such as parental modeling (Zacharatos, Barling, & Kelloway, 2000) and previous positions held (Bettin & Kennedy, 1990). Furthermore, the role of personality (Mumford, Zaccaro, Harding, Jacobs, & Fleishman, 2000) and other deep-seated individual

characteristics such as work orientation, mastery orientation, and career-growth orientation (Boyce, Zaccaro, & Wisecarver, 2010) can impact leadership development.

Issues related to interpersonal development, on the other hand, concern the capacity for individuals to build relationships with others, such as enhancing a group's social capital and engaging in authentic leadership with followers (e.g., Avolio & Gardner, 2005; Galli & Müller-Stewens, 2012). In his seminal review of the leadership development literature, Day (2000) distinguished between “differentiation” LDPs aimed primarily at directly building the intrapersonal knowledge, skills, and abilities (KSAs) of leaders through the use of assessment tools (e.g., assessment centers and multisource or 360° feedback), internal and external formal leadership training, and support (e.g., mentoring and coaching); and “integration” LDPs, e.g., action learning, network events, stretch assignments, and job rotations that contribute to organizational goals (e.g., increased revenues, corporate social responsibility) by developing extended social networks, coordination and commitments, while simultaneously building individuals' interpersonal knowledge, skills, and abilities. Day (2000) argued that the intrapersonal leadership development dimension should be more strongly determined by differentiation LDPs, while the interpersonal leadership development dimension should be more strongly determined by integration LDPs. In turn, we can use Day's (2000) arguments as a rationale for bundling (aggregating) LDPs: Some LDPs are more oriented toward intrapersonal leadership development, while other LDPs are more oriented toward interpersonal leadership development. Given the conceptual overlap between these two bundles of leadership development activities (it is, for instance, not implausible that job rotation builds individual leaders' KSAs as well as their social capital), we expect that LDPs organized along the differentiation and integration dimensions will be conceptually and analytically distinct, but positively correlated.

Indeed, previously published empirical studies indicate that differentiation LDPs can exert a positive influence on the development of both the intrapersonal and interpersonal dimensions of leadership. For instance, together with evidence for the positive effect of traditional leadership training (e.g. Avolio, Reichard, Hannah, Walumbwa, & Chan, 2009), there is evidence that individual coaching can increase self-regulation, coping with job demands, and job performance (Theeboom, Beersma, & van Vianen, 2013), as well as social competencies (Grief, 2007); 360-degree feedback can improve leadership performance (Smither, London, & Reilly, 2005); and mentoring has been shown to lead to leader efficacy and trust between mentor/mentee (Lester, Hannah, Harms, Vogelgesang, & Avolio, 2011). Similar joint effects have also been noted for integration LDPs. For instance, service learning programs have been reported to lead to self-development, a responsible and global mind-set, ethical literacy, cultural intelligence, and interpersonal community building skills, which include stakeholder engagement, interpersonal skills, and relationship management (Pless, Maak, & Stahl, 2011). Stretch job assignments have been shown to lead to intrapersonal skills such as broader business knowledge, insightfulness, courage to take a stand, commitment to success, and acting with integrity, in addition to interpersonal skills such as “bringing out the best in people” and “pulling them around a common goal” (Dragoni et al., 2009; p. 737). Job rotation can increase intrapersonal skills such as adaptability and flexibility and building a broader perspective on the business (Campion, Cheraskin, & Stevens, 1994), while action-learning experiences have been found to build personal meaning for individuals (McGregor & Little, 1998) and potentially collective leadership (Raelin, 2006). Finally, network events/offsites where information is exchanged on new products can help in the creation of social capital (Galli & Müller-Stewens, 2012). Thus, one contribution of this study is to evaluate whether differentiation and integration LDPs bundle together at the organization level consistent with the Day (2000) arguments.

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