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 (Lehmborg, 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 & Dragni, 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, Journal of Business Research, Journal of Management, Organization Science) yields only three results. These studies are by Davidson, Mahoney, and Sipes (2012), who found that LDPs impact leadership outcomes; Gove, Ely, and Pelled (2012), who found that LDPs impact learning outcomes; and Schaubroeck, Kacmar, and D’Souza (2012), who found that LDPs impact follower attitudes.

If we look beyond these limited results, the effects of LDPs on organizational performance remain largely unexplored, both theoretically and empirically. However, despite the fact that there is evidence linking a variety of LDPs to individual-level leader outcomes, both theoretical and empirical work relating bundles of multiple LDPs and organizational performance is lacking in the literature (Collins & Holton, 2004; Richard, Holton, & Katsioloudes, 2014). To address this gap, we propose and test 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.
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 the development of both the intrapersonal and interpersonal dimensions of leadership? For instance, service learning programs have been reported to lead to self-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-Stevens, 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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