Leadership Practices and Organizational Performance  
- a Norwegian study.

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Abstract
Leadership practices, and the relationship between these practices and organizational performance, were examined in a Norwegian context. The hypotheses were tested in a survey of N=347 MBA and Master of Management alumni evaluating their leaders and respective organizations. Results confirmed an overall positive relationship between transformational leadership practices and organizational performance. Rather than five LPI leadership practices as proposed by Kouzez and Posner, the study found three distinct leadership practices better fit a Norwegian context. Each leadership practice was found to have a different relative influence on organizational performance. Practical implications of findings for leaders and organizations are discussed, and areas for further research are suggested.

JEL Classification
Business Administration (General, Personnel Management, Other)

Introduction
Assuming “the essence of leadership is influence” (B. van Knippenberg et al., 2005:496), leadership could broadly be defined as “the art of mobilizing others to want to struggle for shared aspirations” (Kouzes & Posner, 1995:30). However, it could be argued this “influence, mobilization and struggle” is of little value in an organizational context unless it ultimately yields an outcome in line with the “shared aspiration” for leadership to be deemed successful. Peter Drucker (quoted in Ulrich, Zenger & Smallwood, 1999:xii) captures this notion by simply stating: “Leadership is all about results”.

Creating results in today’s ever changing and increasingly competitive world requires a very different kind of leadership from what was studied in the past. While leaders in the past managed perhaps complex organizations, this was in a world of relative stability and predictability. In today’s globalized world, with organizations coping with rapidly changing environments, leaders face a new reality. Working in flexible contexts and connected by real-time electronic communication, increasingly mobile employees have themselves become the critical resource of their organizations (Graetz, 2000; Hillestad, 2000; Reger, 2001). What is now needed are leaders who simultaneously can be agents of change and centers of gravity (Shamir, 1999; Revang,
keep internal focus and enable people and organization to adapt and be successful, while at the same time never letting go of the customer focus and external perspective (Alimo Metcalfe, 1998; Furnham, 2002).

Hence, the purpose of this study was to investigate the relationship between leadership and leadership practices on one side - and organizational performance on the other side - in a contemporary Norwegian context.

**Literature review**

Long before scientific management, and subsequently management science, evolved with Fredric Taylor around the turn of the 20th century, leadership has been eminent in written sources. In a Nordic context, descriptions of leadership are embedded in the stories of the Vikings as told in the old Norse Sagas (Czarniawska & Sevon, 2003). In spite of a long written tradition, and thousands of studies, we still do not have a clear understanding of what leadership is and how it can be achieved. Leadership research in the 20th century has moved through different phases with many theories, addressing different aspects of leadership. However, there is little cohesion among the theories that help us understand how they all tie together (Graen & Uhl-Bien, 1995; Higgs, 2003). Many “new” theories have rather been further developments and combinations of previous theories. Further, the development of leadership theory has not kept pace with the changes in the nature of work and the implications of these changes for leadership (Hooijberger, Hunt & Dodge, 1997).

As new theories have evolved, Rost (1990) suggests these do not supplant the established theories, rather they become alternatives. According to Revang & Sørensen (1995:31), leadership thus has become: “a growing theoretical smorgasbord where anyone can help themselves to whichever view one likes the best”.

A dominant approach in leadership research during recent years falls within the “New Leadership” domain, which is largely based on initial work by Burns (1978) and House (1977). On this basis, Bass (1985) developed the theory of transactional and transformational leadership. Along with a visionary approach and an analysis of the charisma phenomenon (Steyrer, 1998), transactional and transformational theory serves as the basis for a substantial portion of “New Leadership” research. Literature provides widespread support for transformational leadership, encompassing visionary and
charismatic elements, being associated with higher performance, both for individuals, groups and organizations (e.g., Sosik, 1997; Bass, 1997; Coad & Berry, 1998; Elenkov, 2002; Sashkin & Sashkin 2003), and across samples and cultures (e.g., Bass, 1997; Einstein & Humphreys, 2001; Whittington, Goodwin & Murray, 2004).

Theoretical Framework and Research Hypothesis

In the initial model of transactional/transformational leadership, leadership styles fell at either end of a single continuum. A transactional leader would be engaged in an exchange or a transaction where pay, status or other rewards are exchanged for work effort. While the transactional leader motivates subordinates to perform as expected, the transformational leader typically inspires the followers to do more than originally expected (Den Hartog et al., 1997). Transformational leadership requires the leader to create and share a vision for the future. This forms a common basis for the followers to engage in necessary actions and change (Kakabadse & Kakabadse, 1999). A transformational leader develops a closer relationship between himself/herself and followers based more on trust and commitment than contractual agreements. A transformational leader further builds self-confidence, self efficiency and self esteem in their followers, positively influence followers’ identification with group/organization and vision, and boost motivation and goal achievement (Jung & Avolio, 1999).

While some scholars view transformational leadership as a more of a “universal” theory (e.g., Bass & Avolio, 1994; Bass, 1997, Kouzes & Posner, 2002a), others assume leadership practices may vary between contexts and cultures (e.g. Hofstede, 1980, 1991; Den Hartog et al., 1999; Koopman et al., 1999; Hetland & Sandal, 2003, Schramm-Nielsen, Lawrence & Sivesind, 2004).

The Leadership Practices Inventory (LPI) (Kouzes & Posner, 1987, 1997, 2002b), rooted in the “New Leadership” domain, was chosen as the leadership framework and independent variable for this study. A comparison with other leadership instruments (Sandbakken, 2004) suggests the LPI is a reliable and validated framework with a good uptake of items and factors from other “New Leadership” theories and instruments, such as the MLQ (Bass & Avolio, 1994) and the TLQ (Alimo-Metcalfe & Alban-Metcalfe, 2000a, 2000b, 2001).
Brett, (2000) suggests several approaches, including economic return, survival and excellence concepts, can be used for research purposes to measure organizational performance under given circumstances. He argues, however, the excellence concept to be the most appropriate in today’s world. Excellence is a multi-dimensional concept, which assumes high intensity and balanced performance by leaders over time on a set of goals/criteria will yield excellent results. This approach is well suited for cross industry comparisons, as it does not include financial indicators irrelevant for public sector and not for profit organizations. Thus, the “Excellence” construct, as described, by among others, Peters & Waterman (1982), Sharma, Netemeyer & Mahajan (1990), and Caruana, Pitt & Morris (1995), was chosen as the performance framework and dependent variable for this study.

A positive relationship between transformational leadership and performance has been proposed and linked in a number of studies by researchers such as Bass (1997), Avolio, Bass & Jung (1999), Howell & Hall-Merenda (1999), and Elenkov (2002). Thus Hypothesis 1 states: “There is a positive relationship between transformational leadership and organizational performance”.

Given Hypothesis 1, and, with the leadership concept broken down into different leadership practices, as described by Kouzes & Posner (2002), Hypothesis 2 states: “There is a positive relationship between each leadership practice and organizational performance.”

Research by House, Sprangler & Wolycje (1991), Howell & Avolio (1994), Waldmann & Yammarino (1999) and Elenkov (2002) suggest some specific attributes and behaviors are particularly effective in achieving superior performance. Thus Hypothesis 3 states: “There is a difference in the relative influence from each leadership practice on organizational performance.”

Methodology

Subjects in the study were 1280 alumni from the Norwegian School of Management/BI with either an MBA or Masters of Management degree, now working in a cross-section of private and public organizations. The sample could be described as a “judgment sample” who could offer the contributions sought (Churchill, 1999), as well as
“key informants” who supposedly were knowledgeable about the issues being researched, and able and willing to communicate about them (Kumar, Stern & Anderson, 1993).

Questionnaires were distributed by mail (paper) and e-mail (Web-based) according to the format of the addresses, and in Norwegian or English according to the teaching language used. Confidentiality options were provided. The questionnaire consisted of the 30 item LPI leadership questionnaire and the 16 item Excel performance questionnaire, plus questions of demographic nature. Both the LPI and Excel were scored on an interval scale, all questions posed positively for consistence (Churchill, 1999). The survey period lasted four weeks during October/November 2002. A reminder was sent after two weeks. 396 usable responses were received, which gave a response rate of 31% (33 % on the Web-based vs. 26% on the mail-based). After correcting for missing data, outliers, and non-Norwegian leaders, the sample used for data analysis consisted of 347 replies; 48 (14%) evaluating female leaders, and 299 (86%) evaluating male leaders and their respective organizations.

Although 360-degree evaluations are believed to yield the most comprehensive results (Olsen, 1995), this is often not practically obtainable in a research context. Research by Bray, (1982); Harris & Schauerbroeck, (1988); Hazucha, (1991); Bass & Yammarino, (1991); Nilsen & Campell, (1993); and Hogan, Curphy & Hogan, (1994) conclude subordinates are often in a unique position to evaluate leadership effectiveness. Hogan et al., (1994) further conclude the use of subjective subordinate evaluation as a valid and reliable method of conducting research on leaders and performance. Measurement of organisational performance represents a particular challenge for researchers when objective data are not available. Under such circumstances several researchers (e.g., Dess & Robinson, 1984; Venkatraman & Ramanujam, 1986; Wooldridge & Floyd, 1990; Hart & Banbury, 1994) suggest subjective measures, such as the Excel scale, as appropriate.

Research
Kouzes & Posner, (2002b: 14) claim: “results from various analysis reveal that the LPI contains five factors.” Carless, (2001), on the other hand, concludes the LPI assesses one higher order overarching transformational leadership construct, rather than five distinct factors. However, a 3-factor LPI-solution was found by Lam, (1998) on a sample of Hong Kong managers, and recent research by Wilberg (2003) utilized a 3-
factor LPI solution on a sample of Norwegian and Swedish newspaper editors. This gave reason to further investigate the LPI construct on this Norwegian sample.

An initial, exploratory factor analysis with oblique (direct Oblim) rotation gave an 18-item, 3-factor solution, with Cronbach Alphas of .95 for the full scale, between .78 and .92 for the individual factors, and with high and unique item-loadings on each factor. This solution explained 67.64% of the total variance in the LPI-construct (Sandbakken, 2004). Thus, Kouzes & Posner’s (1987, 1995, 2002a) supposition that the LPI consists of five distinct and fundamental practices/factors of exemplary leadership was not supported. Rather a 3-factor solution better fit this Norwegian sample. The three factors were labeled ”Supporting Actions”, the behavior most engaged in (M= 6.45; SD=1.84), “Modeling the Way”(M= 6.05; SD=1.95), and “Transforming the Organization” (M=5.99; SD=1.92).

“Supporting Actions” encompasses giving others freedom and choice in making decisions that affect them, supporting these decisions, showing respect for others, listening to diverse points of view, and being generous with appreciation and support to team members for their contributions. Overall, this behavior contributes to releasing co-workers potential, innovation and creativity. “Transforming the Organization” involves the leader being willing to take risk, see outside the organization and forward in time, create and communicate a vision, get others to “buy in” on this dream of the future, and then energize the team to strive to realize future opportunities. “Modeling the Way” encompasses leaders who oversee that actions are consistent with plans, values and standards, are active in setting developing these plans as well as setting achievable goals and milestones, and set a personal example of what is expected from others.

Three factor leadership models have previously been supported by amongst House & Dessler (1974), Peterson Smith & Tayeb (1993) and Fisher & Bibo, 2003. Compared to another leadership instrument recently developed in a UK - as opposed to a US- context, the three LPI factors found partly resemble the three main, broad constructs of the Transformational Leadership Questionnaire (TLQ) (Alimo-Metcalfe & Alban-Metcalfe, 2002a & b). The TLQ terms, and corresponding factors found in this study which bares clear similarities are: “Leading and developing others (Supporting Actions), “Personal Qualities” (Modeling the Way), and “Organizational Leadership” (Transforming the Organization). Along with the three factor LPI solutions found by Lam
(1998) and Wilberg (2003), it can be argued a three-factor (transformational) leadership construct has some merit.

The overall reliability for the Excel was high (Cronbach alpha = .92), consistent with what was previously found by Caruana, Pitt & Morris (1995).

The hypotheses were tested using SPSS, applying both standard and stepwise multiple regression to determine the relationship between transformational leadership overall, the three leadership practices found by factor analysis and organizational performance. The overall results from the two methods were consistent, indicating robust conclusions. Only stepwise results are reported, as this gives greater detail of explanation (Hair et al., 1998).

Hypothesis 1 was supported. A very strong positive relationship between transformational leadership and organizational performance was found (R= .75; sig .000). The explanatory power of the model, as indicated by the coefficient of determination (R_2 =.5; sig .000), suggests leadership (LPI) predicts 50% of the organizational performance (Excel).

Testing hypothesis 2 with summated scales supported the notion of a positive relationship between leadership and organizational performance for two of the three leadership practices “Transforming the Organization” (St.Beta=.33; sig. =.000) and “Supporting Actions” (St.Beta =-45). “Modeling the Way” did not enter the stepwise regression model when using summated scales, which in a research context has the advantage of giving more easily replicable results. However, factor scores can give a better explanation of this particular sample (Hair et al., 1998). Thus, when using factor scores, “Modeling the Way” entered the stepwise regression as the third factor (St.Beta = .12; sig. = .007), indicating a very low positive relationship with organizational performance for this particular sample. Similar to results obtained when using summated scales, using factor scores “Transforming the Organization” entered the regression as the second factor (St. Beta = .32 ; sig. =.000), and “Supporting Actions” was the first factor to enter the regression (St.Beta=.41; sig.=.000). However, as “Modeling the Way” only entered the regression with summated scales, the proposed hypothesis of a positive relationship between each of the three leadership practices and organizational performance was only partially supported.
Hypothesis 3 was confirmed, as a difference in the relative influence on organizational performance was found between the three leadership factors. In a stepwise regression (summated scale), “Supporting Actions” was found to have the highest relative influence (St.beta= .45; sig .000) with “Transforming the Organization” (St.beta= .33; sig. 000) as the second most influential factor. This suggests each of these two factors make a statistically significant, positive and unique contribution to predicting organizational performance. “Modeling the Way” did not enter the model using summated scales, but entered as the third factor with low St. Beta values using factor scores (see results for hypothesis 2, above). However, this does not imply that “Modeling the Way” is an unimportant leadership behavior.

The results were validated by a split sample approach (Hair et al., 1998) using summated scale and standard entry multiple regression analysis. Overall, the differences between the full and split samples were small, indicating a generally robust and stable model and results.

Further testing with MANOVA/ANOVA involving demographic data, suggested both leadership and organizational performance can be influenced by demographic variables. For full results, see Sandbakken, 2004. Amongst the findings involving selected demographic variables are: a) As size of organization increases, leaders engage somewhat more in transformational leadership practices, particularly “Transforming the Organization” and “Modeling the Way.” b) Leaders in private organizations engage more frequently in transformational leadership practices compares to leaders in public sector, particularly “Transforming the Organization” (M= 6.08; SD 1.84 vs. 5.53; SD 2.12). Public sector organizations also scored somewhat less (M= 4.34 ; SD= 1.19) on Organizational performance compared to private sector organizations (M= 4.66; SD=1.06). c) No statistical difference was found between knowledge intensive and traditional organizations with regards to the overall transformational construct; however leaders in knowledge intensive organizations were found to engage more frequently in “Transforming the Organizations” (M=6.25; SD = 2.00 vs. M=5.81; SD 1.84). Knowledge intensive organizations were also reported to have a higher performance score (M=4.75; SD 1.16 vs. 4.49; SD 1.04). d) Comparing male and female leaders, male leaders reportedly had slightly higher mean scores than female leaders on all leadership practices, as well as on organizational performance. However, because of a
comparatively smaller number of female leaders to male leaders these results should be interpreted with caution. e) Results suggest that as leaders grow older, they engage less in “Transforming the Organization”. However, no significant difference was found between ages on the other leadership practices and the performance variable. f) No statistically difference was found on any of the variables examined based on the number of years a leader had been in a particular position. g) As could be expected, leaders higher up in the organizational hierarchy engage more in “Transforming the Organization” than leaders further down in the organization

**Conclusion**

Overall, the study found transformational leadership has a very strong positive relationship with organizational performance ($R=.7; \text{sig.}=.000$). The explanatory power of the model ($R^2 = .5; \text{sig.} = .000$) suggests 50% of organizational performance is explained by (transformational) leadership.

Consistent with what could be expected given the egalitarian Norwegian work culture (Hofstede, 1980, 1991; Schramm-Nielsen et al., 2004), the study suggests Norwegian leadership style puts more emphasis on what the leader can do for the individual (i.e. “the leader as servant”) than what the leader does to the follower. The good news for Norwegian leaders is “Supporting Actions” emerges as the leadership practice by which Norwegian leaders most frequently exercise their influence, mobilize and unite in shared aspirations. This leadership practice is also the relatively most important contributor to organizational performance. Norwegian leaders could possibly benefit further from continuing to explore and exploit this leadership behavior. However, Norwegian leaders have a large, untapped potential by also doing more to their followers. This involves being willing to take on risk, challenge status quo, experiment, create and unite around a vision of the future. Ultimately these kind of leadership practices are aimed at inspiring co-workers to find new ways that “Transform the Organization”, making it possible to realize future opportunities and be successful in a world of constant change. This is the leadership practice Norwegian leaders engage least in, but is of second most importance for organizational performance. Being the leadership practice Norwegian leaders engage second most in, “Modeling the Way” emerged as the leadership practice with the least influence on organizational performance. This should not lead us to underestimate the importance of setting goals, following up through the
process, making certain work is carried out according to standards and values, and setting
a personal example. Rather these leadership practices should probably be viewed as a
foundation and prerequisite for effective transformational leadership.

Some leaders at the bottom of the ladder could possibly view some of these
leadership practices as being relevant only to “the next level”. However, it can be argued
every leader at any level could adapt and apply the concepts and contents of these three
leadership practices to his or her situation to improve his or her leadership capabilities
and contribute to achieving better results.

Further it could be argued results from this Norwegian study are not generalizable
and applicable outside the national context. This could be correct as to the more specific
national cultural aspects, such as a certain degree of naiveté in openness and directness.
On the other side, it could be argued that Norway and Scandinavia in some ways are in
the forefront of the development with regards to leadership practices adapted to the
”knowledge economy”, and thus could offer contributions along at least two dimensions:
First; as modern organizations are becoming less hierarchical and more democraticized,
they require less “power distance” as found in the more egalitarian Norwegian work
environment. Secondly; the increasingly skilled “knowledge worker” often require a less
directing and more facilitating, enabling, supporting and “feminine” leadership style
similar to what was found by Hofstede (1980) and confirmed by the prominent
“Supporting Actions” dimension described in this study.

Finally, findings presented in this study could contribute to a useful framework for
interpreting Norwegian leadership practices as well as help raising awareness and further the
understanding of how transformational leadership practices influence organizational
performance. Following the notion that transformational leadership practices can be
developed (Hetland & Sandal, 2003), the results could provide encouraging news and
untapped opportunities to Norwegian leaders and organizations as well as for leadership
development and consulting practices. However, this study provides only tentative answers,
on an aggregated level, to limited questions. Thus, the field is open, and further research is
strongly encouraged.
References:


