The institutional role of leadership in effective management

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Abstract. This article addresses the topical issue of the impact of the leadership on the outcome of entrepreneurial activity conducted by firms. The author assesses various institutional firm theories relating to organizational leadership. The author brings to light the gist of the term "leadership" from the standpoint of each of these theories. The article provides a characterization of factors affecting leadership. The author considers as foundational to the theory of organizational leadership the situational approach and proves its advantages over the other two – personal and behavioral. Relying on the views of M. Mescon and others, the author describes the methodology of the situational approach as a four-step process. Note that the author does not gainsay the role of the other two approaches to defining the effectiveness of organizational leadership. The article presents an algorithm for exploring the issue of assessing the role of leadership in effective management.

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Introduction

The development of market relations requires proper institutional mechanisms [1, 2, 3, 4]. However, creating them is a complex and long process. It is not easy to adopt them, since the action of laws regulating the economy gets modified by the existing institutional environment when such adoptions takes place [5]. Therefore, it is no wonder that the study of issues in the activity of firms is central to institutional economic theory.

From the standpoint of the latter, there are a number of firm theories (Figure 1). There are other theories as well, but it is these theories that deal immediately with leadership and assessing its role in effective management of entrepreneurial activity conducted by firms.

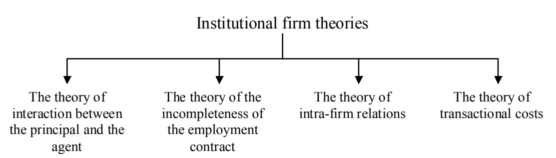

Figure 1. Institutional theories dealing with intra-firm leadership

Leadership is an institutional theory in which relations between the principals and agents (the firm's personnel) are concentrated. The leader occupies his place on the team as a result of the more effective activity, the ability to rise over traditional values and manage his subordinates effectively. All this is concentrated in the organization of managerial solutions (be it operational or strategic issues aimed at activating entrepreneurial activity).

Right are those authors who note that the interaction between the leader and the team arises for the sake of resolving common issues or attaining common goals. The effectiveness of leadership, in this regard, is determined through the combination of three factors (Figure 2). Let us note this figure does not give us a complete idea of what we have, because we have not spoken of the main thing. Here it is about the actions of the leader, those of his followers, and situational peculiarities, what is especially crucial in the situation that has arisen.

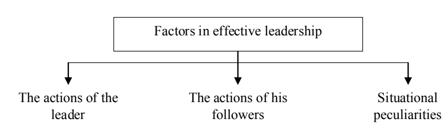

Figure 2. The primary factors in effective leadership in the system of intra-firm management

The situational approach is a foundational approach in the theory of effective leadership in organizing managerial decisions. It was preceded by two more approaches (Figure 3). Their significance only rises amid supporting the first one from the standpoint of the institutional theory of effective leadership.

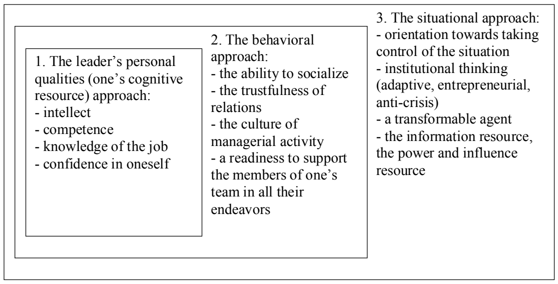

Figure 3. Three approaches to assessing the effectiveness of leadership in organizing managerial decisions

A number of authors have written on the intellect and cognitive capabilities of a leader, namely R. Stogdill (1948), R. Mann (1956), and P. Northouse (1997). Of special significance from the standpoint of the personal qualities of a leader are also competence, knowledge of the job, and confidence in oneself.

"Central to the situational approach is the situation, i.e. a specific choice of circumstances which substantially impact organization at a given specific time. The situational approach is not a simple set of guidelines but rather a way of thinking about organizational issues and solutions to them. The situational approach tries to link specific techniques and concepts with certain specific situations with a view to attaining the goals of the organization more effectively" [6, 7, 8].

This approach admits that although the general process is the same, specific techniques which the manager has to vary in order to effectively attain the organization's goals can differ drastically. M. Mescon and other authors [9] have described the methodology of the situational approach as a four-step process:

1. The manager ought to be familiar with means of professional management, which have proved themselves as effective.

2. Each of the managerial concepts and methodologies has its strengths and weaknesses or comparative characteristics in the event they are applied in a specific situation. The leader ought to be able to foresee the probable consequences – both positive and negative – of applying a given methodology or concept.

3. The manager ought to correctly interpret the situation. One has to be able to determine which factors are crucial to the situation and what probable effect changing one or several variables could have.

4. The manager ought to be able to link specific techniques which would cause the least negative effect and possess the least amount of shortcomings with specific situations.

The behavioral approach has also been described quite well in special literature of an economic, psychological, social, and culturological nature. It is this approach that laid the groundwork for styles of management and conduct in entrepreneurial-type organizations, to which firms belong as well.

However, each of these approaches had its shortcomings, which led to the emergence of the situational approach in the institutional theory of leadership. The shortcomings of the first approach are defined as follows: there is no such set of personal qualities that all managers possess (leaders in organizing managerial decisions). The shortcomings of the second approach lie in that one cannot come up with one single, optimum, style of managing a team engaged in entrepreneurial activity.

The third (by the time of emergence) approach complements the first two, making up for their loopholes mentioned above. Its primary targets are: institutional thinking, a transformable agent, the effectiveness of the process of working out decisions, orientation towards taking control of the situation, the information resource, and the power and influence resource.

"Neither the personal qualities approach, nor the behavioral approach was able to establish the logical link between the manager's personal qualities and behavior, on the one hand, and effectiveness, on the other. This does not mean that personal factors and behavior are not important to management – on the contrary, these factors are crucial to success. However, effective management can largely depend on additional factors which can include the needs and personal qualities of one's subordinates, the nature of the task, the requirements and impact of the environment, and information" [8]. In our view, one cannot but agree with this statement, since it is the conditions of specific situations that bring about the emergence of leadership in managing entrepreneurial activity.

The effectiveness of leadership is determined by the interaction between the personal qualities of principals and various aspects of situations which entrepreneurial activity abounds in [9]. As the author further notes in this work, among managers there are personalities oriented towards people and those oriented towards objectives. A principal of which specific type will be the most effective in a given specific situation depends on the degree to which he can control it. And it is here that leadership in organizing a managerial decision plays a key role, which, in turn, depends on three factors:

1. The leader's relations with his followers;
2. The degree to which the objective is structured;
3. The leader's reputation or his powers of authority.

The author cited above describes (quite in depth) the interrelation between stress from an arising situation, one's intellect, and productivity. In particular, he notes that when in a state of stress managers tend to focus on less relevant issues and actions and their cognitive capabilities are distracted from the primary objective. As a result, the group does not perform to the best of their ability. And further: "The manager's cognitive capabilities will boost the effectiveness of the group's performance only to the extent to which they are needed for fulfilling a given specific task, i.e. to the extent to which fulfilling the task requires intellectual capabilities specifically" [9].

The institutional theory of leadership is grounded in trust. In this case, it is about the LMX (Leader-Member-Exchange) model known to specialists, which defines relations between the manager and his subordinates (Graen & Schliemann). According to this model, among subordinates there are people who can be nominally divided into two groups:

- the first group (in-group employees) includes agents with a marked motivation, whom managers consider competent and trustworthy;
- the second group (out-group employees) includes agents who have a reputation of being incompetent, untrustworthy, and virtually devoid of motivation.

Consequently, this model differentiates between two styles of management: management based on conviction and management based on the principal's execution of his formal duties. Managers behave as mentors with competent subordinates – not as superiors; they entrust them with important and responsible pieces of work the execution of which requires major abilities. With incompetent subordinates, managers execute the second scenario and entrust them with not very responsible work requiring no major abilities. There is virtually no personal contact between the principal and the subordinates.

Over the last few years, the institutional theory of effective leadership has been increasingly linked with "transformational leadership". In accordance with its tenets, the principal influences his followers through forming a vision of the firm's future and working with agents. Such leaders fill the imagination of their subordinates with prospects that can open up if set goals are attained. They paint the image of a corporate culture that can be created, transfuse their faith to their subordinates, and stimulate the development of their own abilities as well.

The other dimension of effective leadership is "managerial leadership". Here we are talking about "the principal of management" as a special type of manager, in whom certain social-psychological and professional qualities are inherent, which are related to: 1) impelling the firm's personnel to business activity; 2) setting goals and finding means for attaining them; 3) forming uniform ways of perceiving reality and norms of organizational culture.

The leader of management is a reputable employee of the firm, who possesses actual power associated with the official position of manager within strictly defined boundaries of entrepreneurial activity. An important role, in this regard, which has been rightfully pointed out by a number of authors, is also played by his "influence" upon the firm's agents (with a view to executing planned work).

Somewhat summarizing, it should be noted that from the standpoint of institutional economic theory leadership per se is construed as an influencing element which emerges apart from the mechanical execution of routine operations within the firm [9]. "Leadership is the ability to raise human vision to a broader horizon, to bring the efficiency of human activity to higher standards and also the ability to form personalities, transcending beyond its usual boundaries that limit it".

The above primarily applies to the theory of interaction between the agent and the principal (the personality of the firm's manager). It is also the theories of transactional costs, intra-firm agreements, and the incompleteness of the employment contract (due to the impossibility of foreseeing all future circumstances and possible situations). According to H. Simon, the parties can, in this regard, "transfer the powers of one of the parties to the master, who will be empowered to make decisions in accordance with his own interests after the uncertainty of the future has been resolved" [10].

In conclusion, we shall provide the following scheme for assessing the role of leadership in effective management (Figure 4). It is about the organic link (direct and inverse) between intra-firm institutes and the fundamentals of effective leadership. It is of this link that we were talking above within the frame of this article. We also would like to note that the study on this subject was conducted at the Institute of Economics of the Urals State University of Physical Culture and the Department of Economics of Chelyabinsk State University.

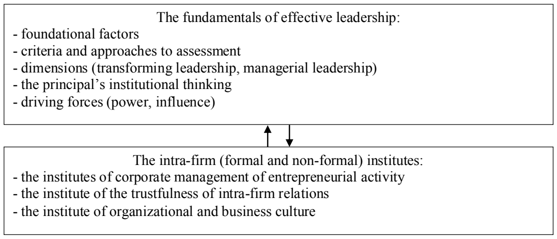

Figure 4. An algorithm for exploring the issue of institutional assessment of the role of leadership in effective management

Let us also consider the criteria for assessing and the typology of leadership: the content of activity (an inspiring and organizing management leader), the nature of activity (a situative and versatile leader), the style of management (an authoritarian, democratic, and charismatic leader). But in any case (whatever the principal might be), of importance is a combination of leader qualities and those which are professional and are governed by the maximally expedient independence of actions and a developed psychological readiness to fulfill corresponding duties that ensure business success.

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