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CEO TRUSTWORTHINESS: A UNIVERSAL OR CONTEXT-SPECIFIC ORGANIZATIONAL ADVANTAGE?

A Dissertation

Presented for the

Doctor of Philosophy

Degree

The University of Tennessee, Knoxville

Kathryn A. Jones

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DEDICATION

This dissertation is dedicated to my adult children,

Kenneth and Andrea Mann

whose maturity and encouragement have been a constant support

throughout my educational endeavors.

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ABSTRACT

A basic premise of strategic management is that organizational leaders influence organizational outcomes. By definition, strategic leaders are challenged to envision and enact a future that will ensure the survival and strengthen the competitive performance of their organizations. This all-encompassing task of *strategic leadership* is the primary responsibility of those at the top of the organizational hierarchy. Given this, the question becomes how *strategic leadership* translates into superior organizational performance.

Leadership, at any organizational level, does not occur without the cooperation of constituents. The importance of interpersonal trust as the foundation of cooperative activity is often acknowledged in the social sciences, but seldom examined empirically. This research study focuses on leader trustworthiness as a resource and develops two models of trustworthy strategic leadership as a potential source of organizational competitive advantage: (1) a universal advantage model based on organizational behavior and inter-firm relations perspectives; and (2) a resource-based contingency model suggesting that the strategic value of trustworthy leadership is dependent upon organizational and environmental contextual factors. Six hypotheses derived from these models are tested using archival and perceptual data from a multi-industry sample of 56 nondiversified public firms. Perceptual data was obtained from the CEO and multiple top management executives from each firm.

Regression analyses of the data revealed a significant positive relationship between CEO trustworthiness and CEO accomplishment, between CEO accomplishment and organizational competitive performance, and between CEO trustworthiness and organizational competitive performance. Additional analyses revealed that CEO trustworthiness and organizational performance were more positively associated as organizational size, CEO tenure, and environmental uncertainty increased. Significant main effects for trustworthiness were observed in the presence of moderation

by the other variables. These findings support both the behaviorally-based universal model and the resource-based contingency model of the value of strategic leader trustworthiness as a source of competitive advantage.

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CHAPTER 1

INTRODUCTION

The socioeconomic pressures for effective business leadership have never been greater. Driven by the globalization of markets and competition, technological innovations, and increasing demographic and cultural diversity, turbulence in the business environment is fast becoming the norm for most industries. Add to these the effects of almost two decades of mergers, acquisitions, hostile takeovers, downscoping and downsizing (Hitt & Keats, 1992) and we find the increasing expectations of stakeholders and capital markets that CEOs and their management teams "add value" in their organizations as strategic leaders (Gupta, 1988).

However, confidence in today's top management executives to do so has eroded (Bennis, 1989; Kouzes & Posner, 1993a; Zaleznik, 1989). Americans, concerned about the competitiveness of U.S. companies in a world market, have become disillusioned by business failures, plant closings, mismanaged change efforts, and scandals involving unethical and socially irresponsible business practices which cast doubts on the leadership capacity of today's business executives. There is a growing skepticism concerning the capability of those in charge to successfully guide their organizations in this intensely turbulent and competitive environment (Kouzes & Posner, 1993a; Mirvis & Kanter, 1991; Zaleznik, 1989).

In this atmosphere of environmental turmoil and skepticism, organizational leaders are challenged to envision and enact a future that will ensure survival and strengthen the competitive performance of their companies. This all-encompassing task of *strategic leadership* is the primary responsibility of those at the top of the organizational hierarchy: CEOs, division general managers, top management teams, or other governance bodies such as boards of directors (Hambrick, 1989).

Unfortunately, despite the proliferation of over 10,000 publications in the academic and popular press on the topic of leadership (Yukl, 1989a), we know very little about the leadership process in the strategic context and even less about the determinants of leadership effectiveness at this level.

A key implication of the strategic context is that both leadership and effectiveness become organizational in nature. Yet, extensive reviews of the vast body of multidisciplinary leadership literature (e.g., Bass, 1990a; Yukl, 1989a) reveal that the overwhelming majority of leadership research focuses on the face-to-face influence of "leaders" in dyads or small groups either in nonwork settings or at the lowest hierarchial levels in business and non-commercial organizations (Hunt, 1991; Gupta, 1988). Some organizational leadership theorists question the applicability of the theories and perspectives derived from these "traditional" approaches to leadership of a strategic nature (e.g., Blair & Rivera, 1992; Hunt, 1991; Shrivastava & Nachman, 1989; Westley & Mintzberg, 1989). At the same time, some sociologists and population ecologists question whether leaders at the top can really have any significant impact on organizational outcomes. They argue that leadership at this level is primarily symbolic due to powerful internal and external constraints on decision discretion (e.g., Hannan & Freeman, 1977, 1984; Lieberson & O'Connor, 1972; Weiner, 1978).

Most organizational leadership theorists emphasize the importance of leadership at the top. Despite this emphasis, the approaches to the study of leadership at the upper echelon level are quite different from traditional approaches which focus on the socio-relational aspects of leadership. Personal influence is virtually ignored in empirical studies of macro-level leadership. For example, strategic management models generally indicate leader impact on organizational activities and performance (e.g., Andrews, 1971; Ansoff, 1987; Hofer & Schendel, 1978). However, the mainstream empirical literature in this field tends to primarily examine environmental factors and strategic decision content (e.g., Fahey & Christensen, 1986; Venkatraman & Prescott, 1992) and/or decision-making techniques (e.g., Huff & Reger, 1987; Eisenhardt, 1989; Judge & Miller, 1991) as

determinants of organizational performance. The strategic contingencies literature, a small subset of the strategic management field, does focus on individual leaders by examining the relationships between various leader characteristics and organizational outcomes. Although primarily limited to demographic characteristics, this work provides evidence suggesting that leaders can and do impact organizational outcomes (e.g., Gupta & Govindarajan, 1984; Thomas, Litschert & Ramaswamy, 1991). Unfortunately, *how* this impact occurs and the interpersonal aspects of leadership have not been examined. Abraham Zaleznik (1989), a recognized psychoanalyst and leadership researcher, stresses that effective business leadership depends on *both* substance and personal influence. Substance refers to "the business of business: making products and going to market with something of value to customers" (p.213). The substance of leadership, therefore, is the content of decisions that move the organization forward toward this end. Substance includes the content of strategies and policies, as well as the structure of roles and relationships. By personal influence, Zaleznik refers to the leader's impact on the thoughts, attitudes, and behavior of others through conscious and unconscious powers of persuasion. His view is supported by other theorists who suggest that understanding strategic leadership will require a synthesis of environmental and organizational perspectives with individual influence perspectives. (e.g., Blair & Rivera, 1992; Hunt, 1991; Shrivastava & Nachman, 1989; Westley & Mintzberg, 1989).

Recently, numerous publications in both the academic and popular press are stressing the importance of personal character and interpersonal trust to organizational leadership effectiveness (e.g., Badaracco & Ellsworth, 1989; Bennis, 1989; Bradach & Eccles, 1989; Covey, 1992; Granovetter, 1985; Horton & Reid, 1991; Kouzes & Posner, 1993a; Locke, 1991; Shapiro, 1987, 1990; Srivastva & Associates, 1988; Whitney, 1993; Zaleznik, 1989; Zucker, 1986). Based upon over ten years of study, Kouzes & Posner (1993a) suggest that credibility and trust form the foundation upon which organizational leaders and constituents create the future.

Other social scientists agree, though with different terminology, stressing the importance of executive integrity (Locke, 1991; Srivastva et al., 1988), principle-centered leadership (Covey, 1992), and reciprocal trust (Whitney, 1993; Horton & Reid, 1991; Bennis, 1989) to interpersonal influence and organizational performance. Recognizing that economic activity is embedded within networks of social relationships, researchers and theorists argue that efficiency within complex systems of coordinated action (such as economic societies and organizations) depends on interdependent actors working together effectively (Bradach & Eccles, 1989; Fichman & Leventhal, 1991; Granovetter, 1985; Larson, 1992; Shapiro, 1987, 1990). Many are emphasizing the influence of trust on coordination and control at the micro (i.e., interpersonal) level of organization (e.g., Granovetter, 1985; Larson, 1992; McAllister, 1995; Pennings & Woiceshyn, 1987) while others focus on the effects of trust at more macro levels (Barney & Hansen, 1994; Roth, 1995; Ring & Van de Ven, 1992; Seabright, Leventhal, & Fichman, 1992; Shapiro, 1987, 1990; Zucker, 1986). Empirical research concerning upper echelon leader trustworthiness is very limited. Nevertheless, theoretical arguments and studies are beginning to emerge which suggest that leader trustworthiness may be a key determinant of strategic leadership effectiveness (e.g., Barney & Hansen, 1994; Frost & Moussavi, 1992; Badaracco & Ellsworth, 1989; Kouzes & Posner, 1993a; Gambetta, 1988; Srivastva et al., 1988).

Purpose of the Study

The purpose of this study is to address the general question: *Can strategic leadership be a source of competitive advantage?* A resource-based model of leader trustworthiness as a determinant of organizational performance is developed along with a more traditional behavioral model of trustworthiness as a determinant of leader effectiveness and organizational performance. Specifically, the study develops and tests hypotheses to determine the universal and context-specific value of leader

trustworthiness as a potential determinant of superior organizational performance. This research is the first known empirical study to examine leader trustworthiness as a competitive advantage.

The universal perspective follows from two primary bodies of literature: (1) the organizational behavior literature supporting the strategy implementation position that trustworthy leaders elicit cooperation and support for their visions which result in a motivated workforce and the efficient utilization of resources; and (2) the interfirm relations literature which suggests that trustworthy leaders provide access to opportunities and enable organizations to build economically beneficial relationships with other organizations. The resource-based perspective suggests that aspects of the organizational and environmental context will determine the value of trustworthy leadership as a source of competitive advantage. From the resource view, the ultimate performance benefits of trustworthy leadership are contingent upon the organization's ability to capitalize on leader trustworthiness. In addition, the organizational capabilities believed to stem from trustworthy leadership are considered of primary value in environments requiring change.

Significance of the Study

There are both practical and theoretical benefits for examining the effects of leader trustworthiness in the context of strategic leadership. Top managers, because of their positions of authority, have the potential for constructive and destructive impact on organizational activities and relationships with key stakeholder groups. U.S. corporations spend billions of dollars annually to identify and develop leaders, yet, we seem to have a shortage of "leaders" at a time when American business is recognizing that effective strategic leadership is critical for survival and prosperity (Zaleznik, 1989; Bennis, 1989). Determining the potential importance of leader trustworthiness has implications for selecting and developing executives for this important role.

Traditional perspectives argue conceptually that leaders have significant impact on performance through their influence on patterns of communication (Barnard, 1938), strategy and structure (Chandler, 1962; Child, 1972), and commitment (Selznick, 1957). As Pearce and Robinson (1987) observe, a patchwork of theory and research suggests that strategic leaders provide the primary direction for strategic decision making through the dominance of their firms' emergent social systems (e.g., Pearce & DeNisi, 1983; Hosmer, 1982; Lorange, 1980; Mintzberg, 1979). They add, however, that considerably less has been published to explain the bases from which these leaders derive their power. Theoretically, academics have not yet addressed the interpersonal socio-relational aspects of upper echelon leadership.

The primary significance of this study lies in its in-depth examination of strategic leadership in a manner that blends traditional socio-relational approaches dealing with individual and group influence concepts with the more macro-oriented approaches which deal with broader organization- and environment-oriented perspectives. Several theorists have suggested that efforts toward the synthesis of these perspectives are greatly needed and rarely pursued (e.g., Blair & Rivera, 1992; Hunt, 1991; Shrivastava & Nachman, 1989; Westley & Mintzberg, 1989). Phillips & Hunt (1992) argue that the lower-level, face-to-face focus of traditional leadership research does not go far enough in illuminating the *hows* and *whys* of organizational leadership, especially given the major issues organizations face today. They stress that today's environment and competitive issues call for leadership to be conceptualized in its strategic context in addition to its more traditional, lower-level focus. Others emphasize the need to give greater attention to followers and the relational aspects of leadership at the organizational level (e.g., Hollander & Offerman, 1993; 1990). Still others emphasize the need to understand the role of leaders in effective strategy implementation and as well as strategy formation (e.g., Galbraith and Kazanjian, 1986; Gupta, 1988). This study examines strategic leadership in a manner that incorporates these perspectives.

The study also contributes to the development of resource-based theory. As the first known study to examine leader trustworthiness as a firm resource, this study adds to the efforts of resource-based theorists who seek to identify valuable resources which can enhance the competitive performance of organizations. Miller (1996) suggests that progress in the development of resource-based theory requires theorists to complement the internal focus on resources with delineation of the external environments in which different kinds of resources would be most advantageous. Amit and Schoemaker (1993) also encourage researchers to consider the contexts within which various kinds of resources will have the greatest influence on organizational performance. Therefore, a significant aspect of this study is the consideration of the organizational and environmental context in the evaluation of leader trustworthiness as a potential source of competitive advantage.

The design of the study addresses several recommendations concerning research intended to advance theory in organizational leadership. Follower perspectives are utilized (Hollander & Offerman, 1990) along with consideration of leader-subordinate relations in the broader setting in which actions take place--the wider organization and external environments--as recommended by Adams and Yoder (1985). The study also addresses the need for meso-level analysis in leadership research recommended by House (1988) and Bass (1990b). The focus of meso-level research is the examination of relationships between micro- and macro- variables. As an example of mesolevel research, this study is concerned with the individual leader, on the one hand, and the total organization and environment surrounding the leader on the other (Bass, 1990b).

Summary

Surrounded by skepticism and environmental change, strategic leaders face the challenge of envisioning and enacting a future for their organizations that will ensure survival and strengthen the competitive performance of their firms. Most of what we know about leadership in organizations

comes primarily from traditional studies focusing on interpersonal influence in dyads or small groups at the lowest hierarchial levels. Upper-level leadership is receiving increased attention. Most of the approaches, however, depersonalize leadership by focusing on the content of strategic decisions, decision techniques, and environmental context. The limited research focusing on top-level leaders primarily examines the relationship between various demographic characteristics and performance outcomes with little theoretical explanation.

Therefore, although most organizational leadership theorists emphasize the importance of leadership at the top and stress that individual leaders can and do impact organizational outcomes, *how* this impact occurs and the interpersonal aspects of leadership have not been examined. Many theorists are suggesting that understanding strategic leadership will require a synthesis of environmental and organizational perspectives with individual influence perspectives. Several others are suggested that personal influence and interpersonal trust, based on integrity and personal character, are important factors determining the effectiveness of leadership at the organizational level.

This research study represents one step toward a synthesis of these perspectives. Specifically, the study develops and tests two models of leader trustworthiness as a determinant of organizational performance: a behavioral model and a resource-based model. The behavioral model suggests that trustworthy strategic leadership provides universal performance benefits. The resource-based model suggests that the performance benefits of trustworthy strategic leadership are context-specific.

The background literature upon which these models are based is discussed in Chapter 2. The research models and hypotheses are presented in Chapter 3 followed by a description of the research methodology in Chapter 4. The results and implications of the findings are discussed in Chapters 5 and 6, respectively.

CHAPTER 2

BACKGROUND LITERATURE

Competitiveness has become a national agenda, a critical challenge for many executives, and a hot topic for research (Ulrich, 1991). Understanding competitive advantage is certainly the major focus of research in the field of strategic management. The effort to understand sources of competitive advantage leads strategy researchers to study differences between firms that enable some firms to conceive and implement value-adding strategies that other firms cannot (Barney, 1991).

A basic premise of strategic management is that top-level managers influence organizational outcomes. But can leadership be a source of competitive advantage? This chapter reviews the background literature upon which this study was based. The content is divided into four major sections: (1) Competitive Advantage; (2) Strategic Leadership; (3) Leadership Theory and Research; (4) Trust and Cooperation. The first section reviews the concept of competitive advantage and provides the resource-based theoretical framework for this study. The second section identifies strategic leadership as a specific leadership context and role. The leadership theory and research section divides the major approaches to the study of leadership into micro- and macro-organizational categories and highlights similarities, differences, and contributions relevant to pursuits intended to enhance the current understanding of strategic leadership. The fourth section reviews the literature concerning trust and cooperation leading to the research models developed in Chapter 3.

Competitive Advantage

Reed and DeFillippi (1990) highlight two conceptual treatments of competitive advantage represented in existing research. Some forty years after Chamberlin's (1939) seminal piece introducing

the fundamental concept, Hofer and Schendel (1978) made the next major contribution in describing competitive advantage as "the unique position an organization develops vis-a-vis its competitors through its patterns of resource deployments" (p. 25). In their view, competitive advantage derives from how resources are utilized (i.e., competencies). Following their model, competencies and competitive advantage are seen as independent variables impacting firm performance *within* a firm's strategy (Reed & DeFillippi, 1990). Subsequently, Porter (1980) and Day (1984), however, conceptualized competitive advantage as the *result* of strategy. From this second perspective, achieving competitive advantage automatically results in superior performance. Superior firm performance, therefore, is synonymous with competitive advantage as the dependent variable (Reed & DeFillippi, 1990) and is treated as such in this study.

The traditional strategic management framework suggests that firms achieve superior competitive performance by implementing strategies that exploit their internal strengths in responding to environmental opportunities and threats while avoiding or overcoming internal weaknesses. Most efforts to identify sources of competitive advantage, therefore, have focused either on isolating external environmental opportunities and threats (e.g., Porter, 1980, 1985), describing internal strengths and weaknesses (e.g., Hofer & Schendel, 1978; Penrose, 1958; Stinchcombe, 1965), or finding the most advantageous match between external and internal factors (e.g., Hitt & Ireland, 1985).

Barney (1991) observes that much of the research seeking to identify competitive advantage is based on either environmental or resource-based models which are based on contrary assumptions concerning resource heterogeneity and resource mobility. Environmental models assume that firms within an industry (or strategic group) are identical in terms of the strategically relevant resources they control and the strategy alternatives they pursue (Porter, 1981; Rumelt, 1984; Scherer, 1980) and that, should resource heterogeneity develop, it will be temporary because the resources that firms use to implement their strategies are highly mobile (i.e., they can be bought and sold in factor markets)

(Barney, 1986a, 1991; Hirshleifer, 1980). On the other hand, resource-based models assume that strategic resources may vary across organizations and that these resources may not be perfectly mobile (Penrose, 1958; Rumelt, 1984; Wernerfelt 1984, 1989). Therefore, resource heterogeneity can be long lasting. These opposing assumptions have implications for identifying potential sources of competitive advantage.

Research based on environmental models seeks to describe the environmental conditions that favor high levels of firm performance and/or the strategies most successful under those and other environmental conditions (e.g., Anderson & Zeithaml, 1984; Caves & Porter, 1977; Porter, 1980, 1985). In contrast, the resource-based view focuses on the impact of idiosyncratic firm attributes on a firm's competitive performance. The management of strategy as the alignment of the firm with the environment is then, in essence, the management of tangible and intangible resource stocks. As Rumelt (1984) explains,

> ...the [strategy] concept is that a firm's competitive position is defined by a bundle of unique resources and relationships and... the task of general management is to adjust and renew these resources and relationships as time, competition, and change erode their value (p. 557).

A firm's resources can be classified into one of three categories: physical capital resources, human capital resources, and organizational capital resources. Barney (1991) provides the following descriptions:

> Physical capital resources include the physical technology used in a firm, a firm's plant and equipment, its geographic location, and its access to raw materials. Human capital resources include the training, experience, judgement, intelligence, relationships, and insight of *individual* managers and workers in a firm. Organizational capital resources include a firm's formal reporting structure, its formal and informal planning, controlling, and coordinating systems, as well as information relations among groups within a firm and between a firm and those in its environment (p.101).

Although firm's resources include all assets, organizational processes and routines, capabilities, knowledge, and so forth, not all resources are strategically relevant. Only firm attributes (resource

stocks) that enable the firm to conceive and implement strategies that enhance its efficiency and effectiveness are considered strategically relevant resources (Barney, 1991; Daft, 1983; Wernerfelt, 1984). This definition is consistent with the traditional strategic analysis of "strengths" that firms can use to conceive and enact value-creating strategies (Learned, Christensen, Andrews & Guth, 1969; Porter, 1981; Wernerfelt, 1984). For the purposes of this discussion, strategically relevant resources are referred to simply as resources.

Competitive advantage and superior performance may be temporary or enduring. Porter (1985) suggests that sustainability is achieved when the advantage, protected by barriers to imitation, resists erosion by competitor behavior. Barney (1991) explains sustainability similarly, "whether or not a competitive advantage is sustained depends upon the possibility of competitive duplication" (p. 102) of the advantage or the benefits of the resources upon which it is based.

Analyzing competitive advantage under the assumptions of resource homogeneity and perfect mobility is inherently limiting. Barney (1991) argues convincingly that, in general, firms cannot expect to obtain sustained competitive advantages when strategic resources are highly mobile and evenly distributed across all competing firms. With equal access to highly mobile homogeneous resources, competitive duplication is inevitable. All firms are able to conceive and implement the same strategies, improving efficiency and effectiveness to the same extent in the same ways. It is not possible for firms to enjoy sustained competitive advantage when there are no differences among competitors. Porter's (1985) introduction of the value-chain concept to assist managers in identifying potential internal resource-based advantages suggests that researchers, traditionally focusing on environmental models, are recognizing the limitations of the resource homogeneity and perfect mobility assumptions.

Barney & Hoskisson (1989) suggest that it is reasonable to expect that most industries will be characterized by at least some degree of resource heterogeneity and immobility. Others agree and argue that ambiguity as to what factors are responsible for superior (or inferior) performance acts as

a powerful block to both imitation and factor mobility (e.g., Lippman and Rumelt, 1982; Reed & DeFillippi, 1990). Reed & DeFillippi (1990) suggest that tacitness, complexity, and specificity of resources generate causal ambiguity, particularly in competency-based advantages, and, therefore, act as barriers to imitation.

Based on definitions of sustained superior financial performance and research on competition by strategists and economists, Barney (1986a, 1991) proposes four criteria for evaluating the potential of any firm resource as a source of sustained competitive advantage:

> To have this potential, a firm resource must have four attributes: (a) it must be valuable, in the sense that it exploit opportunities and/or neutralizes threats in a firm's environment, (b) it must be rare among a firm's current and potential competition, (c) it must be imperfectly imitable, and (d) there cannot be strategically equivalent substitutes for this resource that are valuable but neither rare or imperfectly imitable (Barney, 1991: 105-106).

Therefore, it follows from the above discussion that the potential of any resource to be a source of competitive advantage depends upon its strategic relevance in creating economic value for the firm. In addition, the resource must be rare, inimitable, and nonsubstitutable. To examine how strategic leadership may serve as a source of competitive advantage within the resource-based view then requires identifying leadership that is rare, inimitable, nonsubstitutable, and valuable in the strategic context.

Strategic Leadership: The Context and Role

Only recently, with the emergence of strategic management as a field of study, have researchers begun to focus systematically and explicitly on leadership at the top of organizations (Gupta, 1988). The emerging concept representing leadership at this level is *strategic leadership*. Hambrick (1989) identifies strategic leaders as those who have overall responsibility for an organization, who are concerned with *internal* as well as *external* spheres of influence, and who are surrounded by ambiguity

and complexity. These "strategic leaders" may be individual executives (e.g., CEOs or division general managers), top management teams, or other governance bodies such as boards of directors (Hambrick, 1989). Hambrick (1989) also points out that the domain of strategic leadership is "relatively diffuse and uncharted" (p.6).

Based on the fundamental strategic management paradigm which states that the strategic behavior of the organization is shaped by both the environment and the organization's capabilities and, in turn, shapes both the environment and the capabilities of the organization (Ansoff, 1987), emerging definitions of effective *strategic leadership* tend to reflect the role of designated leaders in developing and maintaining an appropriate alignment (i.e., strategy) between their organization and its environment as the means to the successful achievement of desired ends. Effective leaders at this level are expected to enable their organization to fulfill its mission and hold the organization together as a working unit over time (Adair, 1988). This often requires that leaders influence external factors in the organization's favor and enable their organization to adapt to environmental changes.

Role-focused definitions of *strategic leadership* tend to highlight the decision domains and responsibilities of leaders at the top organizational level. For example, Hosmer (1982) suggests that strategic leadership refers to the creation of an overall sense of purpose and direction which then guide integrated strategy formulation and implementation (i.e., the strategic management process). Summer's (1980) more elaborate definition suggests that strategic leadership is a multifaceted concept which involves (1) the integration of societal ethics with organizational ethics; (2) the alignment and enactment of philosophies regarding the roles of leader, society, and organizational constituents; and (3) the alignment of organizational influence and power in society. Hunt (1991) describes strategic leaders as being involved in defining the organization's mission, strategies, and organizational design; responsible for the vertical and horizontal integration of the total system and its various strategies; and responsible for policies influencing organizational conduct, culture, and climate.

While these definitions are very helpful in delineating the strategic leadership context and/or the decision domains for which top executives are responsible, they say little about the *process* of strategic leadership. To address strategic leadership as a process requires an understanding of the contributions of the various approaches to the study of *leadership*.

Leadership Theory and Research

Comprehensive reviews of the vast interdisciplinary leadership literature (e.g., Yukl, 1989a; Bass, 1990a) reveal a broad spectrum of perspectives, theory, and research methodologies employed by contributors from diverse disciplines such as psychology, sociology, management, political science, public administration, and educational administration. Unfortunately, the "ferment and confusion" (Yukl, 1989a) resulting from all this diversity can be frustrating. One must look carefully to find areas of consensus upon which to build further investigations. Perhaps there are no better illustrations of this point than the variety of leadership definitions and classifications of leadership mechanisms found in the literature.

Current literature reviews (Bass, 1990a; Yukl, 1989a) report the continuing proliferation of leadership definitions noted in earlier reviews (Stogdill, 1974; Yukl, 1981). Bass (1990a) notes that leadership is variously defined as the art of inducing compliance, the exercise of influence, a form of persuasion, a differentiated role, an instrument of goal achievement, a power relation, an act or behavior, a personality, and an emerging effect of interaction. Yukl (1981; 1989a) observes in his reviews that leadership is defined in terms of individual traits, leader behavior, role relationships, follower perceptions, and influence over followers, task goals, and organizational culture. The diversity among researchers and their conceptualizations of leadership reflect deep disagreement about the identification of leaders, leadership processes, choices of phenomena to investigate, and the interpretation of results (Yukl, 1989a).

Bass (1990a) and Yukl (1989a) conclude that, except for the assumption that leadership involves *an influence process* and is a group phenomenon *involving two or more people*, definitions of leadership appear to have little else in common. This commonality, however, is significant. It suggests that the study of leadership, in a strategic or any other context, must involve trying to understand how a person (or group of persons) comes to have influence over others and what ultimately results in some being considered effective leaders while others are viewed as ineffective.

There also appears to be general agreement concerning the types of mechanisms through which organizational leaders influence others. However, these mechanisms are categorized in conflicting ways in the literature (cf. Blair & Rivera, 1992; Hunt, 1991; Pfeffer, 1981a; Yammarino, 1994). For example, Blair and Rivera (1992) discuss leadership in terms of *micro and macro activities*. Daily interactions between leaders and their external and internal constituents, whether by phone, in meetings or by written message, are said to constitute micro-level leadership (i.e., influence). Macro-level leadership refers to activities which pertain to the whole organization such as defining corporate structure or competitive strategy. Gardner and Schermerhorn's (1992) domains of *directional and operational activities* parallel Blair and Rivera's (1992) micro-macro classifications.

Others prefer to describe leadership in terms of *direct and indirect* mechanisms of influence. Within a stratified systems framework, Hunt (1991) describes direct influence effects as resulting from face-to-face, interpersonal contact between leader and subordinate(s) and indirect effects as the "cascading" impact of such things as mission, strategy, and organizational design on those deep within the organization. This is similar to Gupta's (1988) reference to direct means of influence as personal actions taken by a leader and indirect means as the "context" within which daily decisions are made in the organization. Pfeffer's (1981a) direct and indirect categories have different meanings. He speaks of leader impact through substantive decisions as direct means of influence and the management of symbols that build employee commitment as indirect means.

Yammarino (1994) discusses direct and indirect influence within a hierarchial framework of reporting relationships and person-to-person contact. He depicts interpersonal communication with direct reports as direct influence and communication mediated by subsequently lower levels of managers as indirect. Yammarino describes a cascading model of indirect leadership in which "cascading" refers to the modeling of the behavior of leaders at successively lower levels of management. In order to minimize confusion, references to direct and indirect means of influence in this paper will indicate, respectively, whether the message comes directly from the leader or through other means such as substantive decision content, symbols, and/or intermediaries.

An extensive review of the leadership literature is beyond the scope of this work. However, a brief summary of the major perspectives is presented as the foundation upon which this study of strategic leadership builds. Based on recent reviews (e.g., Bass, 1990a; Gupta, 1988; Hunt, 1991; Robbins and Duncan, 1988; Yukl, 1989a, 1989b), Table 2.1 identifies a number of approaches to the study of leadership, roughly dividing them into micro- and macro-organizational categories. The basic theme of each approach and a sample of major contributors are highlighted along with implications and research issues related to strategic leadership.

Three commonalities exist among the approaches summarized in Table 2.1: Each (1) views leadership as a process involving personal influence; (2) acknowledges that leaders vary in terms of personal characteristics; and (3) recognizes the importance of contextual factors to the processes and outcomes of leadership. The literature from each perspective is, however, strikingly different in terms of the leadership contexts examined, measures of leadership effectiveness, and attention given to the interpersonal aspects of influence. These differences are highlighted briefly in the following sections.

Table 2.1. Leadership Perspectives and Implications for Strategic Leadership

Approaches	Core Theme	Contributors	Implications for Strategic Management	Research Issues for Strategic Leadership
MICRO-LEVEL				
"Traditional" Psychology - based approaches.	Leadership is a social-influence process between leader and follower(s).		Leadership is relational.	How does the relationship between strategic leader(s) and various stakeholders impact organizational performance?
Trait	Leaders possess personal characteristics that distinguish them from non-leaders. However, not all leaders have the same characteristics.	Galton 1869; Cox 1926; Drake 1944	Persons in leadership roles are not all the same.	What characteristics of strategic leaders are related to leadership effectiveness?
Behavioral Style	Leader behavior affects sub-ordinate outcomes. Primarily individual, supervisory-level research. Emphasis on task- and relationship-oriented behaviors.	Bales 1958; Fleishman 1973; Hemphill & Coons, 1957; McGregor 1966; Blake & Mouton 1964	Leaders differ in behavior and leader behavior *can* enhance the motivation for organizational members to attain goals and *can* improve subordinate satisfaction and performance.	How do CEO behaviors impact the performance of the top management team, other organizational members, and the overall performance of the organization? Does greater organizational performance derive from enhanced individual efforts?
Situational Contingencies	The qualities demanded of leaders vary with situational factors. The relationship between leader attributes/ behaviors and subordinate outcomes is moderated by situational factors. Effective leaders adapt style to situation.	Fiedler 1967; Evans 1970; House 1971; Vroom & Yetton 1973	Must recognize important elements of context, including constituents, leader-constituent relations, the nature of tasks performed by the work unit, and the external environment.	What contextual factors determine strategic leader characteristics and behavior? What contextual factors moderate or mediate the relationship between leader characteristics and behaviors and individual and organizational outcomes?
MACRO-LEVEL				
Sociology	Leader ability to influence organizational performance is limited by internal and external constraints over which the leader has little or no control. Primarily succession studies.	Lieberson & O'Connor 1972; Weiner 1978; Weiner & Mahoney 1981; Smith, Carson & Alexander 1984; Pfeffer & Davis-Blake, 1986; Day & Lord, 1988; Thomas 1988.	External factors (e.g., competitive intensity) and organizational characteristics (e.g., structural design) *can* constrain the impact of top managers on organizational performance. Leader competence increases impact.	How is leader impact constrained by external and internal factors? Under what conditions can leaders have significant impact on organizational performance.

Table 2.1 (continued)

Approaches	Core Theme	Contributors	Implications for Strategic Leadership	Research Issues of Strategic Leadership
Normative Role Theories	Leadership roles, activities, and requirements vary by hierarchial level and the degree of change required. Literature is primarily conceptual and descriptive.	Barnard, 1938; Katz & Kahn 1966,1978; Mintzberg 1973; Pfeffer 1981; Tichy & Ulrich 1984; Jacobs & Jaques 1987; Romanelli & Tushman 1988.	Strategic Leadership is leadership in a specific context which *may* require attributes and behaviors different from those required at other hierarchical levels. Strategic leadership content and process *may* vary by pressures for change.	What attributes and behaviors constitute effective leadership at the strategic level? How does effective leadership differ during various stages of the organizational life cycle?
"Traditional" Strategic Management	Leadership is about strategic choice. Strategic decisions (e.g., strategy; resource allocations; organizational design and policies) must be aligned with the external environment. Decision-making processes determine decision quality.	Mintzberg 1973; Rumelt 1974; Porter 1980, 1985; Donaldson & Lorsch 1983; Bourgeois 1985. Eisenhardt 1989; Freeman, 1984	Substantive decisions must be appropriately matched to environmental conditions. Leadership is more than influence, it requires competence in substantive matters.	How do strategic leaders influence substantive decision outcomes?
Strategic Contingencies	Leader characteristics are reflected in organizational strategies and performance. Successful strategy implementation requires a systematic alignment of executive leadership to organizational strategies.	Hambrick & Mason 1984; Gupta & Govindarajan 1984; Govindarajan 1985; Miller, Kets De Vries, & Toulouse 1982; Miller & Toulouse 1986; Leontiades, 1984; Hambrick & Finkelstein 1987.	Matching leader characteristics to strategy *can* enhance organizational performance.	What characteristics, competencies, or attributes of strategic leaders are universally beneficial and which are strategy or context specific requirements? *How* do leader characteristics impact strategic organizational behavior and outcomes?
Change Focused Theories	Leadership and management are not the same. Leader must have a vision for change and a behavioral style which promotes cooperation. Includes charismatic, transformational, visionary, and inspirational leadership.	Burns 1978; Bass 1985; Bennis & Nanus 1985; House 1987, 1988; Onnen 1987; Avolio, Waldman, & Einstein 1988; Slater 1989; Seltzer & Bass 1990; Sashkin & Burke 1990.	Effective strategic leadership requires vision and a behavioral style that promotes effective change. Managers rely on bases of power associated with position authority while leaders achieve influence from personal ideocyncratic bases.	What leader attributes and behaviors precipitate effective reorientation/change efforts? What leader attributes and behaviors are necessary for effective leadership over the organizational life cycle?

Micro-level Psychology-based Approaches

The "traditional" psychology-based approaches to the study of leadership emphasize direct, face-to-face influence within dyadic relationships and/or small groups. This micro-level focus is estimated to comprise more than ninety percent of the literature concerning leadership (Hunt, 1991). Methodologies range from laboratory experiments with children or college students as subjects to field studies in a variety of settings. Of the studies conducted in organizational settings, the overwhelming majority have examined leadership at the lowest hierarchial levels in business and non-commercial organizations such as military, not-for-profit and educational institutions (Bass, 1990a; Yukl, 1989a). Such studies are often referred to as studies of "supervisory" leadership/management (e.g., Bass, 1990a; Hunt, 1991; Sashkin & Burke, 1990; Yukl, 1989a). The micro-level approaches emphasize the interpersonal aspects of influence and the importance of leader-follower relations. Leadership and followership are viewed as mutually interdependent concepts, though leaders have received far more attention than followers (Hollander & Offerman, 1990). Leader effectiveness tends to be either assumed, based on the attainment of a leadership position, or examined in terms of subordinate outcomes such as satisfaction, commitment, and job performance.

Some researchers question the generalizability of findings and the applicability of theories derived from "traditional" studies to leadership of a strategic nature (e.g., Hunt, 1991; Sashkin & Burke, 1990; Shrivastava & Nachman, 1989). Yukl (1989a) observes in his most recent review of the literature that, "most of the widely known theories are beset with conceptual weaknesses and lack strong empirical support. Several thousand empirical studies have been conducted on leader traits, behavior, power, and situational variables as predictors of leadership effectiveness, but most of the results are contradictory and inclusive" (p. 267). Sashkin and Burke (1990) observe that few organizational psychologists and behavioral scientists have paid much attention to top-level executive

leadership and, as a result, little is known about the process by which those in the upper ranks of management create and impact social-organizational processes.

Nevertheless, the micro-level research indicates that leaders (a) can enhance the motivation of organizational members to attain goals; (b) can have a positive impact on subordinates' work-related attitudes and performance; and (c) may derive their power to influence from both position and personal bases. Another major contribution of the traditional literature is the recognition of situational factors as contingencies of leadership effectiveness. Leadership at any organizational level is now understood to be more complex than just leader traits and/or behavioral style alone (Hollander & Offermann, 1990).

Macro-level Organizational Leadership Approaches

The study of leaders and leadership at macro-organizational levels is considered one of the most important, yet neglected, areas of social science research (Pettigrew, 1992). Most of the macro-level literature is based on the belief that leaders at the top can and do impact organizational outcomes and that leadership is a major determinant of organizational effectiveness (e.g., Chandler, 1962; Katz & Kahn, 1978; Gupta, 1988). However, these assumptions are challenged by sociologists who question the potential for leaders to have any substantial effects (e.g., Hannan & Freeman, 1977, 1984; Lieberson & O'Connor, 1972; Weiner, 1978).

In essence, supporters of the "limited effects" perspective argue that the discretion of leaders is constrained by internal and external factors beyond their control, that leadership is an attribution reflecting a cultural bias toward explaining experience primarily in terms of the rational actions of people as opposed to uncontrollable factors (e.g., Meindl & Ehrlich, 1987; Meindl, Ehrlich, & Durkerich, 1985) and that leadership at this level is primarily symbolic (e.g., Pfeffer & Salancik, 1978; Meindl et al., 1985). Several research studies repeatedly cited in support of the "limited

effects" arguments examine the differential impacts of top-level executive succession, the environment, and the organizational structure on organizational performance (e.g., Lieberson & O'Connor, 1972; Salancik & Pfeffer, 1977; Brown, 1982). Other studies examining the impact of chief executive officer (CEO) turnover on organizational performance provide counter-evidence suggesting substantial leader impact (e.g., Day & Lord, 1988; Lant, Milliken & Batra, 1992; Pfeffer & Davis-Blake, 1986; Smith, Carson, & Alexander, 1984; Thomas, 1988). Much of the resulting controversy centers around research methodologies.

Critics argue that examining only the event of CEO turnover ignores individuals differences between the persons occupying the role over time (e.g., Day & Lord, 1988; Thomas, 1988). Individual differences between leaders of different organizations are also ignored. Recent succession studies that include examination of leader characteristics provide evidence suggesting that *who* the leader is makes a difference. For example, there is evidence that succession by a leader from outside the organization (rather than one promoted from within) is related to strategic reorientation (e.g., Lant, Milliken & Batra, 1992). Other succession studies have found leaders to account for more of the variance in organizational performance measures when measures of leader competence are included in the analyses (Smith, Carson, & Alexander, 1984; Pfeffer & Davis-Blake, 1986). Such studies support leader effects and imply top-down influence, but do not address the interpersonal aspects of leadership or the processes through which leaders impact organizational outcomes.

Much of what we know about leadership at upper management levels comes from the work of role theorists and strategic management researchers focusing on executives and/or management teams at the mid- and/or upper-hierarchial levels in a variety of organizational settings. Models of leader impact imply top-down influence on organizational outcomes primarily based on hierarchical authority. The interpersonal aspects of leadership are not addressed. For the most part, executives are believed to affect organizational performance through the content of their activities and strategic

decisions that direct organizational activities and shape the context within which internal constituents perform. When leadership effectiveness is examined, the predominant measures are organization or business unit performance outcomes. Recently, however, a small eclectic group of behavioral and organizational scientists have begun to focus on top-level leadership. Several theorists are reconceptualizing organizational leadership in terms of leader behaviors and proposing similar models of leadership which emphasize leader influence based on personal rather than positional bases of power.

In general, the work concerning leadership at the organizational level has focused on: (1) what leaders do (i.e., what functions and activities they perform); (2) the effectiveness of various strategic decisions (i.e., strategies and structure) under a variety of environmental conditions; (3) identifying advantageous leader characteristics and/or decision-making processes in various strategic contexts; and (4) identifying leader behaviors and characteristics that promote effective organizational change. Corresponding respectively, the normative role theories, strategic management, strategic contingencies, and new change-focused leadership approaches are presented in Table 2.1. Because each approach has direct relevance to the study of strategic leadership, the highlights of each are discussed briefly below.

Normative Role Theories

The role theorists specify from a normative standpoint the types of functions leaders should perform for organizations (e.g., Barnard, 1938; Bennis & Nanus, 1985; Leavitt, 1986; Romanelli & Tushman, 1988). Research studies are primarily descriptive of the activities of top executives. Possibly the best known study is Mintzberg's (1973) analysis of CEO activities showing that general managers perform a variety of informational, decisional, and interpersonal roles. Brief descriptions of the ten interrelated leadership roles identified by Mintzberg are presented in Table 2.2. Other role theorists emphasize the importance of top-level leaders as visionaries (Bennis & Nanus, 1985;

Table 2.2. Mintzberg's Key Executive Roles

Figurehead	Acts as legal and symbolic head and performs obligatory social, ceremonial, or legal duties.
Leader	Motivates, develops, and guides subordinates.
Liaison	Maintains a network of contacts and information sources with key people in the external environment.
Monitor	Seeks and obtains information needed for understanding the environment and the organization.
Disseminator	Transmits information to members of the top management team and other key people in the organization.
Spokesperson	Transmits information to key groups and people in the external environment.
Entrepreneur	Searches the corporation and its environment for ways to improve products, processes, procedures, and structures.
Disturbance Handler	Takes corrective action in times of trouble or crisis.
Resource Allocator	Allocates corporate resources by making and/or approving decisions.
Negotiator	Represents the organization in negotiating important agreements.

Sashkin & Burke, 1990), standard and example setters (Drucker, 1973), "managers of meaning" (e.g., Fiol, 1989; Harris & Sutton, 1986; Limerick, 1990; Jonas, Fry, & Srivastva, 1990; Kotter, 1988; Pfeffer & Salancik, 1978; Pondy, 1978), and builders of trust (Bennis & Nanus, 1985) and organizational cultures (e.g., Hickman & Silva, 1984; Kanter, 1983; Pfeffer, 1981a; Schein, 1985; Selznick, 1957).

The descriptive work of role theorists indicates that effective leadership at the top of the organization is not necessarily the same as that provided by effective supervisors at lower levels. Role theories extend the conceptualization of leadership beyond leader-follower relations by illustrating the complexities of upper-level leadership roles and demonstrating that leadership responsibilities and activities vary by organizational level (e.g., Hunt, 1991; Jacobs & Jaques, 1987;

Katz & Kahn, 1966, 1978) and the need for organizational change (Eggleston & Bhagat, 1993; Romanelli & Tushman, 1988).

This work is relevant to the study of strategic leadership in that it suggests that hierarchial level and environment may have implications for the leader characteristics and/or behaviors required for effectiveness (Hunt, 1991; Jaques, 1989; Katz & Kahn, 1966, 1978; Levinson & Rosenthal, 1984; Tichy & Ulrich, 1984a, 1984b; Tushman & Romanelli, 1985). In fact, while some theorists urge researchers to work toward a general theory of leadership (e.g., Mumford, 1986), others argue that leadership of a strategic nature is sufficiently different to warrant efforts directed toward the development of a theory of strategic leadership (e.g., Day & Lord, 1988).

The central question is not so much "do those in organizational leadership roles lead?", but "is their leadership positive for their organization(s)?". Just as most people cannot not communicate, designated leaders cannot not lead. Whether leaders' decisions and behaviors are consciously designed to send messages to constituents, they send messages nonetheless. Silence or inaction will be interpreted by observers just as are espoused convictions and funding priorities. By virtue of their position and authority, top-level executives are believed to influence organizational conduct.

Noel's (1989) recent study of CEO impact on strategy formation illustrates this point. Continuous observation of CEOs at work over a one-month period revealed that chief executives give time and attention to those "activities they feel are crucial to the survival or growth of their firm" (p.44) thus demonstrating the important issues to which subordinates should attend. Noel reported that CEOs exhibit a continuity of focus in their activities over time which he called obsessive and that issues or persons gain strategic importance in organizations simply because presidents devote more time to them. He concluded that chief executives thereby enact the context in which strategies develop and, therefore, impact the whole process of strategy formation (Noel, 1989). This study supports the proposition of role theorists that top-level leaders lead by modeling. The question that

remains is "what behaviors, values, and priorities modeled by leaders have positive impact on organizational performance?".

Strategic Management

A basic premise underlying work in the field of strategic management is that leadership by top-level executives is a critical factor in organizational outcomes. Traditional strategic management models include leaders as individuals (or groups) and even specify personal characteristics such as leaders' values and aspirations as determining factors of organizational conduct and performance (e.g., Andrews, 1971; Schendel & Hofer, 1979). Yet, periodic reviews of the leadership literature generally do not include the work of strategy theorists and researchers. Perhaps this is because researchers in the field of strategic management have remained true, for the most part, to the discipline's roots in industrial organization and economic theory viewing organizational leadership from a macro perspective and focusing on the effectiveness of strategic decisions (i.e., corporate and/or competitive strategies and organizational structures) rather than leaders or constituents as individuals (see review by Fahey & Christensen, 1986).

Grounded in Child's (1972) concept of "strategic choice", researchers during the early stages of the field have been concerned predominately with *strategy*, both in terms of how strategies should be formulated and what the strategic choices should be (Fahey & Christensen, 1986; Gupta, 1988; Huff & Reger, 1987). Even theorists embracing Freeman's (1984) stakeholder theory of strategic management which emphasizes the importance of *managing relationships* with internal and external stakeholders, focus on responding to the needs and expectations of stakeholder groups *through decisions* that balance important stakeholders' priorities for the organization's welfare (Blair & Rivera, 1992). Therefore, the mainstream strategic management literature is often referred to as the "strategy" literature. For the most part, "people" and " interpersonal relationships" are ignored

conceptually and empirically. In effect, the bulk of strategy literature assumes leader influence on organizational conduct, but "depersonalizes" the process by focusing on indirect means of influence.

Therefore, the attention given to decisions in the mainstream suggests that top-level leadership is about defining direction and context within which resources are acquired and utilized toward the achievement of desired ends. This implies that leadership occurs primarily through substantive decisions that impact the content of organizational activities and the values of organizational members, creating the organization's capacity to pursue a defined direction (Garder & Schermerhorn, 1992). The more direct, interpersonal aspects of leadership are not addressed by strategy researchers (Blair & Rivera, 1992; Zaleznik, 1989). Even studies which examine the decision-making processes of top management teams tend to focus on issues related to decision aids (i.e., decision process structure or sources of information), decision speed and/or decision quality rather than the interpersonal dynamics of decisionmaking (see review by Huff & Reger, 1987).

Nevertheless, the strategic management perspective makes an important contribution to the understanding of leadership by demonstrating that substantive decisions can impact organizational performance (e.g., Porter, 1985; Miles & Snow, 1978). In contrast to the micro-level psychology-based literature, which emphasizes the interpersonal aspects of leader-follower relations while ignoring the substance of leadership, strategy research focuses on substance while ignoring interpersonal dynamics. What the strategy literature does not explore is *how* leaders impact substantive decisions.

In recent years, as many organizations have struggled with the task of adapting to increasing environmental change, some researchers have begun to re-personalize organizational leadership. They have turned their attentions to individual leaders as important determinants of strategy (e.g., Noel, 1989; Lefebvre & Lefebvre, 1992; Miller, Kets de Vries, & Toulouse, 1982) and effective strategy implementation (e.g., Boone & DeBrabander, 1993; Gupta, 1988; Gupta & Govindarajan, 1984a;

1984b; Hambrick & Mason, 1984). The strategic contingencies and the new change-oriented behavioral approaches are two growing subsets of the organizational leadership literature which emphasize the importance of situational context and individual leaders.

Strategic Contingencies Approach

Simply stated, the position of strategic contingency theory is that different situations call for different types of leaders. Research in this stream essentially began with Hambrick and Mason's (1984) *upper echelons perspective* and proposal of a model providing a theoretical framework for interpreting the role of general managers and their idiosyncratic perceptions in influencing organizational outcomes. According to the model, organizational outcomes--strategic choices and performance levels--reflect the values and cognitive bases of powerful actors at the top of the organization. Conceptually, the strategic contingencies approach argues that, across organizations and time, the required leadership competencies will vary due to differences in strategies and environmental factors. Since individual managers differ in competencies due to individual differences in personality and background, matching managers to strategic context (i.e., strategies and environmental conditions) should lead to superior performance (Gupta, 1988).

Like the mainstream strategy literature, the strategic contingencies perspective continues to emphasize indirect mechanisms of influence and the context-shaping authority of top-level executives. Gupta (1988) argues in a recent review of the contingency literature,

> ....few chief executives have either the time or the expertise to exert a *direct* influence over the daily minutiae of....decisions through which strategies get realized. However,....they do have considerable opportunities to influence these decisions *indirectly* by shaping the 'context' within which they are made (p. 155).

Gupta (1988) suggests that CEOs indirectly influence decisions and actions within the organization by (1) selecting key executive decisionmakers; (2) using power to shape organizational structures which affect information collection and processing; (3) dispensing organizational rewards,

at least to key executives; (4) controlling the allocation of scarce resources among various alternatives; and (5) personally affecting the form and scale of resources the organization is able to attract from the environment because of their contacts and credibility.

During the past decade the strategic contingencies arguments have been extended and tested at both the corporate and individual business unit levels. Generally, studies linking characteristics of top management to a variety of organization outcomes, such as strategy, performance, innovativeness and strategic change, support Hambrick and Mason's upper echelon theory (e.g., D'Aveni, 1990; Finkelstein & Hambrick, 1990; Govindarajan, 1989; Hambrick & D'Aveni, 1991; Norburn & Birley, 1988; Roth, 1995; Song, 1982; Weirsema & Bantel, 1992). Researchers have found evidence of relationships between organizational outcomes and various aspects of CEO personality such as locus of control (e.g., Boone & DeBrabander, 1993; Miller, Kets De Vries & Toulouse, 1982; Miller & Toulouse, 1986), need for achievement (Miller & Droge, 1986), conservatism (Sturdivant, Ginter & Sawyer, 1985), flexibility (Miller & Toulouse, 1986) and tolerance for ambiguity (Gupta & Govindarjan, 1984a). However, as observed by Pettigrew (1992) in a recent critique, progress in the upper echelon literature has been tied primarily to a narrow focus and use of demographic data such as age, gender, education, and functional background.

Over time, the conceptual and analytical complexity of the research have increased. Earlier universalistic theorizing is now being sharpened by the exploration of contextual variation (Pettigrew, 1992). For example, several researchers examining the impact of leader-strategy alignment on organizational performance have found support for the importance of matching leader expertise and strategic context (e.g., Govindarajan, 1989; Gupta & Govindarajan, 1984a; 1984b; Thomas, Litschert, & Ramaswamy, 1991). Others have found organizational characteristics such as size (Miller, et al., 1982; Miller & Toulouse, 1986) and centralization (Kets de Vries & Miller, 1984) to moderate leader impact. Still others, focusing on top management teams, have demonstrated

relationships between team characteristics, decision-making processes and decision outcomes (e.g., Dooley, 1996; Huff & Reger's review, 1987) in various environmental contexts (e.g., Eisenhardt, 1989; Eisenhardt & Bourgeois, 1988; Judge & Miller, 1991).

Thus, consistent with the resource-based view, the strategic contingencies perspective suggests that some leaders can and do make a difference in some situations. If strategic leadership effectiveness is a function of the leader and the situation as is suggested by the strategic contingencies approach, research must move beyond the narrow focus on the demographic characteristics of leaders (Gupta, 1988; Lawrence, 1997; Pettigrew, 1992). Pettigrew (1992) and Lawrence (1997) argue that, despite existing evidence of empirical relationships between leaders' characteristics and organizational outcomes, the contingency perspective neglects to address *how* leaders influence outcomes.

Pettigrew (1992) points out that "easily measurable demographic characteristics are used as surrogates for unobserved intervening processes and inferential leaps are then made to a range of organizational outcomes" (p. 177). Thus, the essence of leadership as a process is left to assumption. Lawrence (1997) challenges the neglect of intervening social psychological processes linking leader characteristics with outcomes. She contends that demographic forms of analysis alone "move researchers further and further away, both empirically and theoretically, from the actual mechanisms underlying observed relationships" (p. 21) and argues convincingly that without direct, concrete analysis of the intervening mechanisms and processes, the reasons for any empirical links between characteristics and outcomes cannot be explained. At present, upper echelon theory appears to best explain how leader characteristics are related to leader preferences and not how these preferences come to be organizational realities. One is left with the assumption that leaders make things happen by virtue of the authority of their position, the power to dictate organizational activities. Constituents, both internal and external, are ignored as are the interpersonal dynamics of leadership emphasized by behavioral scientists.

Gupta (1988) acknowledges that "our understanding of the general phenomenon of 'strategic leadership' is still meager" (p. 153) despite progress within the strategic contingencies perspective. He is also critical of the overemphasis on demographics and encourages researchers to examine executive behaviors and personality as well as demographic characteristics. Gupta (1988) stresses that more research is needed to identify the differential impact of leadership and strategic contingencies on organizational outcomes. To aid progress, he proposes a four-category framework of executive leadership characteristics. According to the framework, all leader characteristics [and/or aspects of leader behavior or personality] can be classified in terms of impact on organization performance as either (1) *irrelevant* - having little impact regardless of strategic or environmental context; (2) *strictly contingent* - having significant impact but only under specific strategic and/or environmental conditions; (3) *strictly universalistic* - having significant impact regardless of strategic or environmental context; and (4) *simultaneously universalistic and contingent* - having increased or decreased universalistic impact due to strategic and/or environmental factors. Research that identifies and classifies leader characteristics and behaviors should increase our understanding of when various factors are important. However, continuing to focus on the characteristics and behavior of leaders without consideration of constituents, at least as part of the situation, treats followership as a given. Based on what we have learned from the psychology-based approaches, to focus solely on leaders would appear to be an oversimplification of the strategic leadership process.

Change-focused Leadership Theories

Since the early 1980s increasing numbers of organizations have faced changing environmental conditions and struggled with strategic reorientations involving major alterations in strategy, structure, processes, reward systems, and organizational culture. Commentators on organizational change have written much about the role of top-level executives in the initiation and implementation of such comprehensive changes offering prescriptions and illustrative examples of the visionary and

personal behavior aspects of leadership (e.g., Kanter, 1983; Peters & Austin, 1983; Tichy & Ulrich, 1984a; Pettigrew, 1985; Leavitt, 1986). As a result, the *process* by which those at the top level of organizations create and impact social-organizational processes is receiving increased attention from organizational psychologists and behavioral scientists. Several theorists and researchers are reconceptualizing organizational leadership from a behavioral perspective and proposing theories of leadership which are quite similar (e.g., Bass, 1985a; Bennis and Nanus, 1985; Burke, 1988; Kouzes & Posner, 1987; Sashkin, 1984; Sashkin & Rosenbach, 1993). These emerging theories are being called the "new leadership" or "transformational leadership" theories to distinguish them as a group from the older, traditional supervisory management approaches which have dominated the past fifty years of leadership study in organizational settings (Sashkin & Burke, 1990).

The new theories have been influenced by the pioneering work of psychologist Robert House (1977, 1987, 1988b) concerning the expression of power need by effective charismatic leaders and the work of social historian and political scientist James MacGregor Burns (1978) which amplified the distinction between leaders and managers based on the use of noneconomic versus economic sources of authority. Though called by different names (e.g., charismatic, inspirational, transformational, and visionary leadership), the new theories share several common features. Each stresses to varying degrees that effective leadership: (1) is about stimulating change (i.e., transformation); (2) is about building organizational values and culture; (3) involves using power to develop or empower organizational members; and (4) depends upon *noneconomic sources* of authority and influence (i.e., power derived from the person rather than the position).

A casual observer of the emerging literature might mistakenly assume that the new leadership occurs only when the leader's vision for the organization involves what Miller and Friesen (1980) refer to as revolutionary change--major strategic reorientation. In fact, theorists tend to describe the new transformational leadership in such a context. However, while theorists and researchers would

agree that the new leadership they describe applies in such situations, the "transformation" they speak of occurs in individuals.

Burns (1978) introduced the concept of the "transformational leader" as one who changes the outlook and behavior of followers; who brings about a change in follower thinking that redirects follower actions. According to Burns (1978), superior leadership performance is *transforming* and is seen when (a) one or more persons engage with others in a manner through which both leader(s) and followers broaden and elevate their interests, motivation, and morality, (b) awareness and acceptance of the purposes and mission of the group are generated, and (c) leaders and followers transcend their own self-interests for the good of the group. For Burns, the social system [the organization] is transformed as both leader(s) and followers are transformed. Transformational leadership, therefore, refers to the process of influencing major changes in the attitudes and assumptions of organization members and building commitment for the organization's mission, objectives, and strategies (Yukl, 1989b). In contrast, Burns (1978) describes "transactional leadership" as management which is based on economic and quasi-economic transactions (e.g., contingent rewards) between leaders and followers which appeal to followers' self-interests.

Bass (1985a) was the first to apply Burns' idea of leaders as transforming agents to organizational leadership and develop measures of transformational and transactional leadership. His work corrected a misconception that transformational and transactional (managerial) leadership were end points on a continuum and suggested that transactional leadership is simply different from, not inconsistent with, transformational leadership.

The distinction between transformational leadership and management has received considerable attention (e.g., Bass, 1985a, 1985b; Burke, 1988; Burns, 1978; Kotter, 1988, 1990). There appears to be a general consensus that leadership and management are complementary processes and that both are necessary for organizational effectiveness (Bass, 1990a; Kotter, 1990; Sashkin & Rosenbach,

1993; Sashkin & Burke, 1990). For example, Kotter (1988, 1990), emphasizing that management and leadership must work together, suggests that the key function of leadership is to produce adaptive or useful change whereas management's function is to make the current organization operate smoothly. He stresses *direction-setting* (i.e., vision and strategies) and *alignment*--getting individuals to understand, accept, and move in the direction chosen--as key aspects of leadership, emphasizing *motivation and inspiration* as central components of the process. Kotter differentiates these from the managerial functions of planning, organizing, and controlling which he describes as producing order, predictability, and key results expected by stakeholders. Sashkin and Rosenbach (1993) agree and argue that leadership cannot occur without management. They explain that it is in the context of management activities that leaders define and transform followers and organizations. This is consistent with the emphasis placed on context shaping within the strategic management and strategic contingencies approaches.

In addition to distinctions between transformational leadership and management, theorists have sought to clarify the distinguishing characteristics of inspirational versus charismatic leadership (e.g., Hogan, Raskin & Fazzini, 1990; Howell, 1988; Sashkin, 1992) and visionary versus transformational leadership (e.g., Sashkin & Burke, 1990; Sashkin & Rosenbach, 1993). Several theorists have developed instruments to measure their respective concepts of leadership (e.g., Bass, 1985a; Burke, 1988; Kouzes & Posner, 1987; Sashkin, 1984, 1990). Sashkin and Rosenbach (1993) point to the similarity among the dimensions identified by these researchers, working independently using different methodologies, as evidence of the validity of this emerging conceptualization of leadership.

Still in the early stages of conceptual development, most of the new leadership literature focuses on concept clarification and refinement of measures rather than empirically testing theoretical relationships. Therefore, although the new leadership is posited as *superior leadership* by its theorists, empirical studies examining its superiority are only beginning to emerge. The first studies

addressed issues related to the question of whether managers and leaders are inherently different as argued by Burns (1978). Sashkin and Burke (1990) report the results of a study utilizing Burke's (1988) Leadership Report instrument in which the transformational and transactional leadership scores of high-level executives from business and industry as well as government were compared with the scores of mid-level managers in high technology firms. The results revealed that the higher-level executives had significantly higher transformational scores than did mid-level managers who scored significantly higher on transactional leadership. While no measures of effectiveness were employed, the study suggests that higher-level executives tend to be transformational leaders and mid-level managers, at least in high tech firms, tend to be transactional leaders.

Other studies, utilizing Bass' (1985a) Multifactor leadership Questionnaire (MLQ), tend to support the view that individuals can be effective at both leadership and managment. Some studies found evidence supporting Bass' hypothesis that transformational leadership augments the effects of transactional leadership on subordinate outcomes such as extra effort, satisfaction, and performance (Bass, 1985b; Bass & Avolio, 1989; Onnen, 1987; Waldman & Bass, 1985; Waldman, Bass, & Yammarino, 1990). Another study found transformational leadership to augment the impact of initiation and consideration behaviors on subordinates' satisfaction and ratings of leader effectiveness (Seltzer & Bass, 1990).

Two studies using Bass' (1985a) MLQ measure appear to provide preliminary evidence that transformational leadership may predict objective criteria of leader effectiveness at the organizational level. Onnen (1987) reported a substantial correlation between parishioners' descriptions of Methodist ministers as charismatic (i.e., high scores on MLQ) and growth in church membership. A second study, reported by Avolio, Waldman, and Einstein (1988), in which MBA students played a simulated business game, showed that firms with charismatic presidents had a larger share of the

market and earned higher profits and stock prices. These studies must be interpreted with caution, however, because of Bass' emphasis on charismatic effects rather than leader behavior.

Sashkin & Rosenbach (1993) argue that Bass' measurement of transformational leadership is flawed in that it is based on attitudinal questions designed to capture "charismatic effects", rather than leader behaviors, and tells us nothing about the personal qualities or behaviors leaders display to produce such effects. Bass (1985a) acknowledges that the most important dimension of his transformational leadership theory, both conceptually and statistically, is charisma. By definition, charisma or charismatic leadership is an attribution based on the responses of followers (House, 1977, 1985). Charismatic leaders are said to induce a high degree of loyalty, commitment, and devotion; identification with the leader(s) and the leader's mission; emulation of the leader's values, goals, and behavior; a sense of self-esteem from relationships with the leader and the leader's mission; and an exceptionally high degree of trust in the leader and the correctness of the leader's beliefs (House, 1977, 1985).

However, Sashkin & Rosenbach (1993) stress that to understand organizational leadership "we must explore, identify, and measure both the specific actions and the personal characteristics of leaders" (p.92) and address the long-range culture-building aspects of leadership. Sashkin (1992) points out that, "effective visionary or transformational leaders rely on followers' internalization of the values the leader models and inculcates as the basis for the organizational culture..." (p. 154). Followers are transformed because they accept and internalize the key values and beliefs that leaders identify as the basis of the organization's culture (Sashkin & Rosenbach, 1993). Edgar Schein (1992) has suggested that perhaps the only important thing leaders do is develop organizational culture. It seems reasonable then that understanding strategic leadership must include not only understanding what leaders do to impart certain values and beliefs, but also how constituents come to accept and internalize the values and beliefs leaders attempt to instill.

The emerging literature from this approach makes several important contributions relevant to strategic leadership. The theories represent a significant effort toward the integration and application of the traditional trait, behavioral, and situational approaches to leadership at the macro-organizational level. The empirical work thus far, though limited, demonstrates that organizational-level leadership can be measured in terms of leader behaviors and can impact the attitudes and behaviors of organizational members. In addition, though perhaps not the intent, the studies of Onnen (1987) and Avolio et al. (1988) provide evidence that arousal of subordinate loyalty, commitment, and identification with the leader and his or her mission (i.e., charismatic effects) is related to organization-level performance. The new leadership work also represents movement toward the study of leadership at the mesolevel of analysis recommended by House (1991) and Bass (1990a), laying the groundwork for understanding the impact of micro-level factors on macro-level outcomes.

In addition, though the new theories have received criticism for neglecting consideration of the content of the leader's "vision" (Hunt, 1991), the emphasis on long-range culture building by Sashkin (1992) & his associates (Sashkin & Burke, 1990; Sashkin & Rosenbach, 1993) represents movement toward addressing substantive matters along with leader characteristics and behaviors. These *visionary leadership* theorists express concern for the content of the culture leaders build. They stress that not just any culture will do. Leaders must develop organizational values that strengthen and support the critical organizational functions identified by Parsons (1960): adapting, attaining goals, coordinating activities, and maintaining the culture. There is general support for the role of leaders in the transmission of values and beliefs through their actions—behavior, personal practices, and decisions (e.g., Noel, 1989; Peters & Waterman, 1982; Schein, 1985; Tichy & Devanna, 1986). Based on knowledge gained from the strategic contingencies approach, one might expect that values and/or beliefs stimulated by leaders could be classified into Gupta's (1988) leadership impact categories discussed in the previous section. In other words, culture-building behaviors and culture

content may or may not have substantial impact on organizational conduct and performance under all circumstances. Sashkin and his associates extend the work of earlier behavioral theorists examining leadership at micro-organizational levels by suggesting that effective organizational-level leadership requires more than gaining a following. Their emphasis on long-range culture building reinforces Zaleznik's (1989) argument that effective strategic leadership is about personal influence and substance.

A few concerns relevant to the application of the new leadership theories to strategic leadership should be noted, however. First, the work thus far displays a very limited treatment of context. There is an overemphasis on leadership in the context of major organizational change. Transforming the attitudes and behaviors of organizational members such that they are aligned in support of the organization's mission is an ongoing responsibility. As Romanelli and Tushman (1988) argue, organizations need executive [strategic] leadership across the evolutionary stages of organizational life, though the emphasis placed on substantive and symbolic matters may vary depending upon whether the organization is experiencing a period of convergence or reorientation. They describe how, and under what conditions, decisions and behaviors of top-level leaders may serve to either sustain or reorient patterns in organizational activity and affect performance outcomes. To encompass these variations, any general theory of strategic leadership must be sufficiently broad enough to apply to all stages of organizational evolution. Another example of the narrow treatment with regard to context is that the new theories focus solely on internal influence and outcomes. Strategic leadership, by definition, includes exerting influence on external as well as internal factors. Therefore, strategic leadership requires a broader perspective of leadership context than is presently provided by the new theories.

Secondly, although the new perspectives confirm the unity of the concepts of leadership and followership (Sashkin & Rosenbach, 1993), they, like earlier theories, focus on leaders without much

regard for followers. Leadership is described only in terms of leader attributes or actions, neglecting to consider constituents as active participants in the *inter*personal dynamics of the leader-follower relationship. For some time, theorists and researchers have been advocating that greater attention be paid to followers and the role of follower expectations in the leader-follower relationship (e.g., Adams & Yoder, 1985; Hollander & Offerman, 1990; Lord, DeVader, & Alliger, 1986; Lord & Maher, 1990; Rush, Thomas, & Lord, 1977).

Summary & Implications for Strategic Leadership

The micro- and macro-organizational approaches to the study of leadership concur that (1) leadership is a socio-relational phenomenon involving personal influence, (2) persons in leadership positions vary in terms of personal characteristics, and (3) contextual factors may affect both the process and the outcomes of leadership. It appears clear from the preceding discussion that leadership at the uppermost levels of the organization represents a leadership context and responsibility that differs substantially from lower-level supervisory management and that no single approach described in this section has adequately determined what constitutes effective strategic leadership. Rather, each approach contributes different pieces of the puzzle.

The traditional psychology-based approaches which focus on leader-follower relations and direct person-to-person influence within dyadic relationships and small groups provide evidence that leaders can have a positive impact on subordinates' work-related attitudes and performance. Research indicates that the power to influence others derives from both position authority and personal characteristics and behaviors. However, for the most part, the traditional study of leadership in organizations has been confined to the lowest hierarchial levels.

The macro-organizational approaches which focus on leadership at the highest organizational levels provide evidence suggesting that leaders at the top can make a difference, but neglect the

interpersonal influence process in favor descriptions of leader activities and investigations of the effectiveness of certain strategic decisions and decision-making processes under various conditions--indirect mechanisms of influence. The descriptive work of role theorists provides valuable insights concerning the substantive and symbolic activities of leaders at various hierarchial levels demonstrating that leadership responsibilities and activities vary by organizational level and suggesting that hierarchial level and environmental context may have implications for the leader characteristics and behaviors necessary for leadership effectiveness.

The strategic management literature stresses that leadership is about defining direction and context through substantive decisions that impact the content of organizational activities and the capability of the organization to achieve desired ends. This literature demonstrates that strategic choices aligned with external and internal environmental factors can enhance organizational performance. The strategic contingencies approach examines relationships between the characteristics of individual leaders and a variety of organizational outcomes providing evidence supporting the theory that different strategic contexts require different types of leaders. Both the strategy and strategic contingencies approaches view leaders as important determinants of strategy and strategy implementation. However, although leader influence is assumed, neither approach addresses the relational aspects of leadership nor explores how leaders achieve influence over organizational outcomes. Both approaches imply that top-level leaders enact personal preferences by use of position authority.

Additional insights are provided by the recent application of behavioral perspectives concerning personal influence at the macro-organizational level of leadership. Although primarily conceptual at this time, the work of the new leadership theorists describes effective leaders as transforming agents. Direction-setting and alignment of constituents in support of the leader's vision and strategic guidance is said to depend upon personal power rather than positional authority and occur through

the development of organizational members and organizational culture. According to the new leadership theorists, effective leaders stimulate followers' interests, motivation, and morality such that self-interests are transcended for the good of the group. The literature from this approach is consistent with the work of role theorists and definitions of strategic leadership. Several theorists have independently developed similar measures of the emerging concept of leadership, but empirical tests of the proposed superiority of this new leadership have not yet been conducted. However, results from a limited number of studies suggest an augmenting effect on the impact of more traditional transactional leadership and managerial styles. Inadvertently, several studies say more about the effects of committed subordinates on organizational outcomes than the effects of leaders' behavior. Empirical studies examining relationships between the new leadership and individual and organizational outcomes have primarily utilized Bass' (1985a) instrument which predominately captures the attitudes of internal constituents rather than the behaviors or characteristics of leaders.

Several theorists suggest that progress in the study of *strategic leadership* requires a synthesis of traditional approaches, which deal with individual and group influence concepts, with the organization- and environment-oriented perspectives (e.g., Blair & Rivera, 1992; Hunt, 1991; Shrivastava & Nachman, 1989; Westley & Mintzberg, 1989). Shrivastava & Nachman (1989) point out that "this is necessary since strategic leadership involves interaction among individuals as dyads, and groups (micro-level variables) and organizations (macro-level variables)" (p. 52). Efforts toward the recommended synthesis are scarce. Only Hunt's (1991) multi-level leadership model appears to incorporate environmental and organizational factors while emphasizing both direct and indirect second- and third-order "cascading" effects of decision made at the top of the organization. Though not yet empirically tested, this very general model represents a noteworthy effort toward conceptual synthesis. Unfortunately, Hunt's (1991) model appears confined to leadership as it affects internal constituents only. Given the definition of the strategic leadership role, it seems necessary for a

synthesis of existing approaches to include not only consideration of the interpersonal aspects of influence and the substantive decisions affecting organizational activity, but also requires an extension of the current focus on the internal organization to include influence and decisions affecting external constituents as well. Strategy formation, whether intended or emergent (Mintzberg, 1978), involves aligning external elements as well as internal.

Trust, Trustworthiness and Cooperative Relations

In order for leadership to occur, there must be at least two agents: one that assumes the role of leader, providing guidance to another who, accepting the influence attempts of the leader, chooses to engage in cooperative activity. The importance and pervasiveness of interpersonal trust as the foundation upon which cooperation is predicated in a wide range of human activity is often acknowledged in the social sciences (e.g., Arrow, 1974; Deutsch, 1973; Gambetta, 1988a; Ouchi, 1979; Smith, Carroll, & Ashford, 1995), but seldom examined empirically (Gambetta, 1988a; Luhmann, 1988; McAllister, 1995). As Gambetta (1988a) notes, scholars tend to mention trust in passing, to allude to it as a fundamental ingredient or lubricant of social activity, only to move on to deal with matters less difficult and more manageable. As a result, trust has received little systematic theoretical or research attention, especially in areas related to organizational functioning and effectiveness.

The recent popularity of trust and cooperation as topics in the academic press, however, suggests that researchers in the organizational sciences are recognizing the importance of interpersonal trust and cooperation in sustaining individual and organizational effectiveness. Trust and the benefits of trust-based relations are receiving increased attention from those interested in cooperation between organizations (e.g., Barney & Hansen, 1994; Browning, Beyer & Shetler, 1995; Gulati, 1995; Ring & Van de Ven, 1994) and between individuals within organizations (e.g.,

Korsgaard, Schweiger, & Sapienza, 1995; McAllister, 1995; Ouchi, 1980). Conceptual arguments are emerging concerning the influence of trust on coordination and control at both the institutional (Barney & Hansen, 1994; Shapiro, 1987; 1990; Zucker, 1986) and interpersonal levels of organization (Granovetter, 1985; Pennings & Woiceshyn, 1987). Though still limited, empirical studies examining trust as either an independent, dependent, mediating, or moderating variable are beginning to emerge (e.g., McAllister, 1995; Pastor & Mayo, 1994; McCauley & Kuhert, 1992). Much of the current work concerning trust suggests that trust and leader trustworthiness may be a key to effective strategic leadership.

This section examines the basic concepts of trust and trustworthiness and discusses the literature concerning the benefits of trust-based relations. Definitions of trust and a description of its nature and development will be followed by a discussion of the literature concerning leader trustworthiness and the benefits of trust and trust-based cooperation between individuals and between organizations.

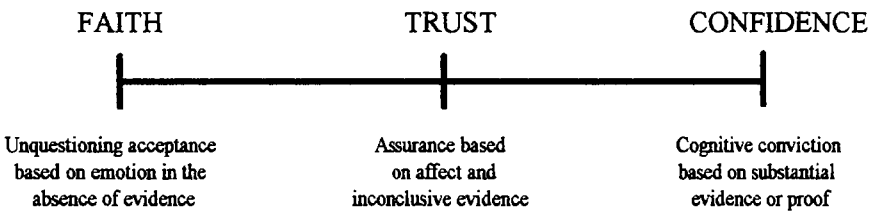
The Concept of Trust

Trust is an abstract term with multiple associative meanings. Definitions of trust range from descriptions of trust as the level of openness that exists between two people (or groups of people) to the extent to which one person can expect predictability in another's behavior in terms of what is "normally" expected of a person acting in good faith (Gabarro, 1978). An examination of the sample definitions presented in Table 2.3 reveals that trust is described as an attitude, a passion, a modality of action, an assured reliance on another, an assumed probability and as an expectation concerning the performance of another. In addition, words such as *faith* and *confidence* are often used as synonyms of trust. Deutsch (1973), however, defined faith and confidence as *forms of trust*. This definitional variety and inconsistency can be confusing.

Table 2.3. Definitions of Trust

Source	Definitions of Trust
Dunn (1988)	Trust is both a human passion and a modality of human action: a more or less consciously chosen policy for handling the freedom of other human agents or agencies. As a passion, a sentiment, it can be evanescent or durable. It is the confident expectation of benign intentions in another free agent. But as a modality of action it is essentially concerned with coping with uncertainty over time.
Gambetta (1988b)	Trust is an assumed probability that a person will perform a certain action. Trust is a particular level of the subjective probability with which an agent assesses that another agent or group of agents will perform a particular action, both *before* he can monitor such action (or independent of his capacity to ever be able to monitor it) *and* in a context in which it affects *his own* actions.
Hart (1988)	Trust is a subjective attitude; the expectation, based on inconclusive evidence, that a person or thing will not fail in performance. To trust is to predicate one's own actions on the actions of others which bear an identifiable risk of turning out unfavorably.
Luhmann (1988)	Trust is an attitude which allows for risk-taking decisions.
McAllister (1995)	Interpersonal trust is the extent to which a person is confident in, and willing to act on the basis of, the words, actions, and decisions of another.
Ring &Van de Ven (1994)	Trust is an individual's confidence in the good will of the others in a given group and belief that the others will make efforts consistent with the group's goals.
Stack (1978)	Trust is an assured reliance on another person; a belief in the credibility of others.

Hart's (1988) belief continuum is helpful in clarifying the concept of trust. Hart points out that trust and its synonyms are "belief" concepts and can be differentiated by the degree to which belief is based on evidence. He explains that *to believe* is to accept something as true in the absence of full knowledge and that *to believe in* is to have *faith, trust,* or *confidence* that a person or thing will not fail in performance. He places trust at the center on a belief continuum bounded at the extremes by faith and confidence, where the variable significance of evidence is matched by a compensating level



of affectivity (i.e., feeling or emotion). Faith is described as an emotionally charged, unquestioning acceptance requiring no evidence. Trust implies depth and assurance of such feeling with inconclusive evidence or proof and is, therefore, tolerant of uncertainty or risk. Confidence is a strong conviction based on substantial evidence or logical deduction involving less intensity of feeling.

Others describe trust similarly as having cognitive and affective foundations (e.g., Johnson-George & Swap, 1982; Lewis & Wiegert, 1985; McAllister; 1995). Lewis and Wiegert (1985) suggest that "we choose whom we will trust in which respects and under what circumstances, and we base the choice on what we take to be 'good reasons', constituting evidence of trustworthiness" (p. 970). McAllister's (1995) recent research concerning trust among peer managers supports these conceptualizations of trust. His study empirically confirmed cognitive and affective dimensions of trust and indicated that cognition-based trust is an antecedent of affect-based trust. Therefore, a person can be said to trust when, under conditions of uncertainty and without conclusive evidence, he or she thinks and feels that a person or thing will not fail in performance.

Descriptions of the development and nature of trust by theorists from the fields of psychology, sociology, social-psychology, and management consistently reveal that trust is (1) provisional; (2) situational; (3) often reciprocal; (4) fragile; and (5) self-perpetuating. The cognitive and affective aspects of trust are not instantaneous responses that can be induced at will with respect to oneself or to others. Rational individuals cannot simply decide to believe that they trust someone if they do not (Gambetta, 1988b; Williams, 1973). Trust depends upon knowledge and "good reasons" and is, therefore, provisional (Whitney, 1993; Hart, 1988; Dasgupta, 1988; Gabarro, 1978). Gambetta (1988b) suggests that people can be expected to seek evidence for their beliefs and to offer that evidence to others. One is also not likely to gain trust through deliberate attempts to convince another of one's trustworthiness. Efforts to impress another of one's trustworthiness will be perceived as manipulative instrumentality (Elster, 1981). Trust and trustworthiness come about over time as the by-products of actions undertaken for other purposes (Elster, 1981).

At least two implications can be drawn from the provisional nature of trust. The first is that people make judgements about the worthiness of another before trusting; and second, that there are criteria or conditions that serve as the bases for the evaluation of worthiness. Observers' evaluative responses of others has received considerable research attention over the past twenty years and, as Hogan, Raskin and Fazzini (1990) observe, there appears to be a degree of consensus in the personality research community that "each of us has a social reputation which reflects our relative degree of status and social acceptance" (p. 345). Gabarro's (1978) research indicates that people justify why they trust another by referring to specific prior events, discussions, or reports. Dasgupta (1988) suggests that our opinion concerning the qualities of a person is partly formed on the basis of the person's background (e.g., record, the opportunities he has faced, the courses of action he has taken, and so forth) and on "the theory we hold of the effect of culture, class membership, family line, and the like on a person's motivation (his disposition) and hence his behaviour. The opinion which

is publicly formed and held is this person's reputation" (p. 54). The development of trust, then, depends upon a person's reputation as trustworthy (Gabarro, 1978; Good, 1988; Dasgupta, 1988).

Good (1988) explains that reputation is built upon what is *known* about a person from personal experience (e.g., interactions) and/or information concerning the experiences of others. Others suggest that people come to *know* another by reputation and attribute personal characteristics based on interpretations of *messages* received from a variety of sources (Meindl, 1990, 1993; McCauley & Kuhert, 1992, Pastor & Mayo, 1994). Dunn (1988) observes that trust may rest on close familiarity or massive social distance. The greater the social distance, the more a person must rely on indirect sources and representations. Two recent research studies provide support for attributions despite social distance. Pastor and Mayo's (1994) research suggests that attributions concerning leadership are based on a social contagion process. Their study supports the basic idea that followers' attributions of charisma are not solely dependent upon individual and dyadic interactions with the leader, but rather, they are strongly influenced by their interactions with peers and other followers. Another study reported by McCauley and Kuhert (1992) suggests that constituents make judgements concerning the trustworthiness of organizational leadership based on the substantive and symbolic content of organizational decisions. These studies suggest that trust is based upon available information from various sources and the determination of worthiness along some set of criteria. In other words, trustworthiness is an attribution and *a person is trustworthy to the degree that he or she satisfies the criteria for trust.*

The determination of worthiness is situational (Deutsch, 1973; Stack, 1978; Whitney, 1993). By definition, a situation must be characterized by some level of dependence and uncertainty in order for trust to emerge. In addition, trust is related to general expectations of worthiness and the actual behavior of another. Everyone generalizes from early childhood and subsequent interpersonal experiences in developing expectancies about the trustworthiness of people in general (i.e.,

generalized trust). However, as Stack (1978) explains, the level of generalized trust does not determine whether a person will trust or mistrust another in any specific situation. Generalized expectancies concerning the trustworthiness of all people form the basis, but only the basis, for perceptions of individual situations. Generalized trust affects a person's openness in the interpretation and assessment of another's behavior and reputation. With regard to evaluative criteria, the literature suggests that there are general and role-specific criteria for trustworthiness (Hart, 1988; Stack, 1978; Whitney, 1993). These criteria are discussed in the Trustworthiness section that follows.

The development of trust as a circular, mutually-reinforcing process can lead to the reciprocity of trust and trusting behavior between parties. Zand's (1972) model of the process of trust development suggests that as one person comes to expect that the other is trustworthy, he or she is willing to disclose information, accept influence, and relax controls which the other will perceive as trusting behavior and tend to reciprocate in kind with similar trusting behavior. The behavior of each reinforces that the expectations of the trustworthiness are valid and trust continues to build.

This spiral effect also works in reverse. Distrust is produced by a similar circular reinforcement process which is first grounded in the perception of untrustworthiness. Expectations that a person is untrustworthy will lead to the withholding of information, the rejection of influence, and the tightening of controls. Empirical studies by Larzelere and Huston (1980) and Butler (1983, 1986) support Zand's (1972) model of the reciprocity. Other studies examining behavioral styles of leaders provide additional support (Bass, Valenzi, Farrow, & Solomon, 1975; Farrow, Valenzi, & Bass, 1980). Bass, Valenzi, Farrow, and Solomon (1975) found more participative leadership behavior in organizations which were described as more trusting. In a later study, Farrow, Valenzi, and Bass (1980) found evidence that leaders tended to use consultative managerial style when organizational goals were clear and levels of trust were high. These studies suggest that leader

trustworthiness and the reciprocity of trust have implications for empowering organizational members and the development of organizational climate and culture.

Another characteristic of trust is that it is simultaneously fragile and self-perpetuating under conditions of uncertainty. In order for trust to be relevant there must be some risk involved. As Gambetta (1988) explains, the trusted must have a degree of freedom to choose from alternatives and to disappoint the expectations of the trusting. There must be the possibility of exit, betrayal, or failure. In addition, the person trusting must be incapable of monitoring the trusted's behavior. The uncertainty and ignorance of the target's behavior is central to the notion of trust. Luhmann (1979) reminds us that while it is never very difficult to find evidence of untrustworthy behavior, it is virtually impossible to prove its positive mirror image. Trust is often predicated not on evidence, but on the lack of *contrary* evidence--a feature that makes it vulnerable to destruction (Gambetta, 1988). Trust and a reputation for trustworthiness can be destroyed by a single act (or report) of dishonesty or betrayal. At the same time, the cognitive theory of selective perception would suggest that, once trust has developed, it is self-perpetuating. Trust itself affects the evidence we seek (Gambetta, 1988) and the information to which we pay attention. Once developed, trust is resilient. As Hart's (1988) tree analogy indicates, "trust is firm, steadfast, and loyal; not impervious to the evidence of the senses, but founded on a willingness to endure risk and uncertainty" (p. 187).

Trustworthiness

Recent studies of trust in organizations indicate that trust is a multidimensional construct activated and sustained by a multidimensional set of conditions (Butler, 1991). In a general sense, trust is contingent upon the perception of personal integrity and competence (Bennis, 1989; Butler, 1991; Gabarro, 1978; Kouzes & Posner, 1993a; Stack, 1978). Dasgupta (1988) suggests that integrity refers to an assessment of a person's honesty and overall disposition, his motivations.

Honesty is widely accepted as a basic aspect of integrity and as a condition for trust. Unless a person is considered truthful, forthright, and consistently reliable in word and deed, integrity is questioned and trust is withheld (Badaracco & Ellsworth, 1989; Gabarro, 1978; Kouzes & Posner, 1993a; Stack, 1978). But, honesty alone is not enough. Consideration is also given to the underlying motivations for behavior. As Gambetta (1988) observes,

> when we say we trust someone or that someone is trustworthy, we implicitly mean that the probability that he will perform an action that is beneficial or at least not detrimental to us is high enough for us to consider engaging in some form of cooperation with him. Correspondingly, when we say that someone is untrustworthy, we imply that probability is low enough for us to refrain from doing so (p. 218).

The motivations and intentions behind the person's actions must be perceived as benign (Elster, 1981; Dunn, 1988; Ring & Van de Ven, 1994). Trust requires the confidence that others will not take unfair advantage (Porter et al., 1975) by exploiting another's vulnerabilities (Barney & Hansen, 1994). Badaracco & Ellsworth (1989) suggest that the very concept of integrity implies a sense of moral soundness. Therefore, a person must be perceived as honest and good.

In addition to integrity, trustworthiness is also dependent upon a second condition. In order for trust to emerge, a person must be perceived as competent (Butler, 1991; Stack, 1978). Different roles require different capabilities. For example, one might trust someone as an auto mechanic that would not be considered trustworthy in the role of tax consultant. Despite honesty and good intentions, one cannot expect performance without the competencies required of the role. Therefore, competence as a prerequisite of trust is a general requirement, but the individual competencies can be expected to vary across roles and circumstances (Gabarro, 1978).

Leader Trustworthiness

Much of the empirical work concerning the conditions for trust has been done within the context of leadership. Simply stated, leader trustworthiness is the degree to which a person satisfies the criteria for trust as a leader. Table 2.4 highlights the major empirical contributions to the literature on leader trustworthiness criteria. Close examination indicates that, although terminology varies somewhat, the research confirms the general criteria of personal integrity and competence. Across various studies, data indicates that trusted leaders are required to be honest (Bennis, 1989; Butler, 1991; Kouzes & Posner, 1993a; Stack, 1978), to exhibit character (Gabarro, 1978), consistency and promise fulfillment (Butler, 1991), constancy and congruity (Bennis, 1989). In addition, leaders are expected to be virtuous and caring (Bennis, 1989), kind and good (Stack, 1978), receptive (Butler, 1991), supportive and of goodwill (Kouzes & Posner, 1993a). The competencies required of trusted leaders involve both cognitive and interpersonal skills. Leaders must be perceived as knowledgeable and capable of judgement (Gabarro, 1978; Stack, 1978), visionary (Bennis, 1989; Kouzes & Posner, 1993a; Badaracco & Ellsworth, 1989), and inspirational in communicating with others (Bennis, 1989; Kouzes & Posner, 1993a). Various theorists summarize the multiple criteria for leader trustworthiness in concepts such as executive integrity (Badaracco & Ellsworth, 1989), leader character (Bennis, 1989), and leader credibility (Kouzes & Posner, 1993a).

Outcomes of Trust and Cooperative Relations

The literature concerning interpersonal cooperation suggests that leaders who are trusted are more influential and effective in gaining the cooperation of others than are leaders who are not. Since trust within the context of organizational leadership was the focus of this study, the literature reviewed in this section is restricted to that concerning the outcomes of trust and leader trustworthiness in organizational settings.

Table 2.4. Empirically-based Foundations of Leader Trustworthiness

Researchers	Terminology	Samples	Components
Badaracco & Ellsworth 1989	Executive Integrity	Senior executives, multiple organizations, case studies, and anecdotal experience.	Congruence among behavior, vision, and values.
Bennis 1989	Leader character	Organizational leaders in the Fortune 500, small and medium size companies, and not-for-profit organizations.	Sense of Purpose Optimism Trustworthiness Caring; Constancy Competence; & Congruity
Butler 1991	Conditions of Trust	Multiple samples: managers and subordinates, machine operators, management students.	Availability Competence Consistency (predictability) Openness Overall Trust Promise Fulfillment Receptivity
Gabarro 1978	Bases of Trust	Work relationships between new company presidents and key subordinates over a 3-year period.	Multiple criteria grouped in terms of Character, Competence, and Judgement
Kouzes & Posner 1993	Leader Credibility	Numerous samples of mid- and upper-level executives over ten-year period.	Honesty Competence Inspirational
Stack 1978	Situational Trust (determinants of trust)		Forward-looking (vision) Supportive Communication of information Uncertainty Credibility of Promise (ability) Social evaluation (kind, good, honest, wise, and keeps word) Generalized Trust
McAllister (1995)	Predictors of Affect-based Trust in Peers	194 managers and professionals in multiple industries; cross-functional dyadic peer relationships.	Interaction frequency Cognitive-based trust Affiliative citizenship behavior

Trustworthiness and Leader Influence

To obtain a following, a person must be ratified as a leader in the minds and hearts of constituents (Adair, 1988; Hollander & Offerman, 1993). Trustworthiness appears essential to acceptance. Adair (1988) stresses the importance of character as the necessary prerequisite for acceptance as a leader and describes character as inner strength, integrity, fairness, toughness and humanity. Zaleznik (1989) highlights aspects of leader trustworthiness (i.e., competence, goodwill, shared purpose, and mutual trust) as the foundation for what he calls the *leadership compact* in organizations. As explained by Zaleznik, the leadership compact resembles a covenantial agreement between leaders and subordinates that implies a cooperation imperative--that both should do their utmost to help the organization succeed. He emphasizes the importance of this conpact in developing a sense of mutual responsibility, trust, and morale within the organization.

Several empirical studies provide evidence that trustworthiness is a key determinate of leader influence. Studies examining the question of why constituents accept and respond to influence attempts support the proposition of enhanced influence due to trustworthiness (Gabarro, 1978; Kouzes & Posner, 1993a; Peppers, 1994). Kouzes and Posner's (1993a) research specifically examined the reasons why organizational members follow executive leaders and revealed that people express a willingness to follow leaders who are perceived as honest, competent, forward-looking, inspirational, and of goodwill. These findings are consistent with Gabarro's (1978) earlier research in which top-level executives described the personal bases of leader influence in much the same terms as they described trustworthiness (i.e., credibility, confidence, competence, motives, and judgement). Based on interview data from a three-year study of the development of working relationships between newly appointed company presidents and their key subordinates, Gabarro (1978) concludes that the development of influence is largely a function of the development of trust and the more credible (i.e.,

trustworthy) a person, the more influence the person will have within those areas in which he or she is trusted.

Additional support is provided by research concerning the sources and effective use of leader power (e.g., Brass, 1984; French & Raven, 1959; McCall, 1978; Salancik & Pfeffer, 1977). Efforts to understand the power to influence others or events usually involve distinctions among sources or forms of power. A widely accepted dichotomy is the distinction between personal power stemming from attributes of the person and position power stemming from attributes of the situation. For example, control over information and rewards are sources of position power while expertise is a source of personal power. Based on this literature, both Yukl (1989b) and Kotter (1985a) conclude that effective leaders rely on a combination of personal and position power sources. Yukl (1989b) suggests that effective leaders supplement their position power with personal power and "use it [personal power] to make non-routine requests and motivate commitment to tasks that require high effort, initiative, and persistence" (p. 256).

Frost and Moussari's (1992) recent empirical study of leader influence revealed that position and personal bases of power as proposed by French and Raven (1959) were related positively to the level of subordinates' trust in their leader. The study also found the relationships between the exercise of both position and personal power bases and the degree of leader influence on subordinates to be moderated by the level of trust in the leader reported by subordinates. These results and recent evidence of a positive relationship between the perceived integrity of influencers (leaders) and employees' trust in the organization (Peppers, 1994) suggest that when leaders are trustworthy, constituents are receptive to indirect as well as direct mechanisms of influence. Thus, the concept of trustworthiness provides a link between leadership efforts and influence.

Trustworthiness and Cooperation Outcomes.

Affirmative responses to influence attempts come in many forms and involve more than compliance with defined role expectations or job responsibilities. As value-adding systems of coordinated activity, organizations rely on the cooperation and willing contributions of people. Conceptual arguments concerning the importance of "willingness" on the part of organizational members can be traced back to Chester Barnard (1938) who stated that "it is clear that the *willingness* of persons to contribute efforts to the cooperative system is indispensable" (p.83). He used words and phrases such as "loyalty," "solidarity," "*esprit de corps*," and "strength of organization" in discussing what he considered an "essential condition of organization" (p.84). Barnard's emphasis on the "willingness to cooperate" set him apart from the accepted thought of his day concerning organizations (Organ, 1990). At that time classical management theory emphasized the virtues of scientific management which emphasized structuring activity and coordination. Barnard (1938) argued that formal structure cannot anticipate or define all needed contributions and that formal structure is an empty shell without willingness to cooperate. This "willingness" he regarded as part of the "informal organization" that complements the formal structure.

Roethlisberger and Dickson (1939) agreed and noted that informal social organization exists in every organization and sometimes facilitates the functioning of the formal organization. They argued that informal organization exists as a necessary condition for collaboration at all levels of the organization. Katz and Kahn (1978) carried the notions further and distinguished between in-role and "innovative and spontaneous behavior," which goes beyond role requirements. They insisted that any organization in which cooperation was limited to formally prescribed behaviors would break down. Thompson (1967) also highlighted the importance spontaneous give and take (i.e., cooperative effort) in his discussion of intensive technologies which are characterized by reciprocal interdependence and the inability to specify in advance the combination and sequence of operations needed to solve a

problem. Recently, McAllister (1995) highlighted ways in which discretionary behaviors contribute to effectiveness within an organizational setting. He argues that discretionary contributions are important for efficiency, coordination, and the wise application of skills and energies, pointing out that looking for opportunities to make constructive contributions is discretionary.

Organ (1990) notes that Barnard's concepts of "willingness to cooperate" and "informal organization" have endured to the present day in one guise of another in various major statements on organization. Contemporary discussions and research concerning organizational culture (e.g., Ouchi, 1980; Schein, 1985; Kerr & Slocum, 1987) and organizational citizenship behavior (e.g., Bateman and Organ, 1983; Morrison, 1994; Organ, 1988; Williams & Anderson, 1991) represent continuing affirmations of the importance of *willingness* to effective organizational functioning.

A small body of empirical research examining individual and group outcomes associated with leader trustworthiness and/or trust supports the proposition that trustworthiness enables leaders to gain the support and cooperation of management teams and other organizational members. A number of studies reveal a positive relationship between leader trustworthiness and individual attitudinal outcomes such as decision commitment ((Korsgaard et al, 1995), attachment to the group (Korsgaard et al, 1995), commitment to the organization (Bennis, 1989; Halverson, 1994; Kouzes & Posner, 1993a; O'Reilly, 1984; Price & Mueller, 1986), commitment to work, organizational values, and the vision (Kouzes & Posner, 1993a), job involvement (Kouzes & Posner, 1993a), and job satisfaction (Halverson, 1994; Kouzes & Posner, 1993a). One study reported by Halverson (1994) found a direct negative association between trust in leader and intention to quit. These outcomes suggest that leader trustworthiness is related to the motivation to remain with the organization and perform in support of it. These studies provide evidence supporting Deutsch's (1957) proposition that trust is a prerequisite to the existence of a stable cooperative system.

There is considerably less research concerning performance outcomes of trust and/or leader trustworthiness. A small number of studies, however, provide preliminary evidence that a variety of work-related behavioral outcomes are influenced by leader trustworthiness. Though limited, there is evidence suggesting that leader trustworthiness impacts subordinate job performance (Halverson, 1994), and organizational citizenship behaviors (Podsakoff, MacKenzie, Moorman, & Fetter, 1990; Deluga, 1994). Interestingly, Podsakoff, et al.'s data failed to show a relationship between transformational leadership behaviors or job satisfaction and employees' citizenship behavior. This suggests that leader trustworthiness may be more important as a determinant of constructive voluntary contributions by employees than a "transformational style" or personal job satisfaction. Halverson's (1994) study of leader-subordinate relations revealed that leader trustworthiness had explanatory power beyond management style for both objective and subjective measures of leader effectiveness. Other research indicates that leader trustworthiness is related to group outcomes such as teamwork (Kouzes & Posner, 1993a; O'Reilly, 1984), communication and problem-solving effectiveness (Zand, 1972).

At the institutional level, several theorists have suggested that trustworthiness and trust among exchange partners offer a number of advantages in addition to minimizing exchange governance costs (e.g., Barney & Hansen, 1994; Gulati, 1995; Larson, 1992; Ring & Van de Ven, 1992; Zajac & Olsen, 1993). The potential advantages of trust relations include access to exchange opportunities (Barney & Hansen, 1994; Gulati, 1995), exchange adaptability/flexibility (Gulati, 1995; Williamson, 1985; Ring & Van de Ven, 1992), and efficiencies due to search costs savings (Gulati, 1993), expediency (Lorenz, 1988) and the reduction of various other transaction costs (Gulati, 1995; Palay, 1985; Parkhe, 1993).

Empirical studies examining trust relations between exchange partners are extremely limited. However, a few studies providing evidence of trust-related advantages are beginning to emerge.

Garmaise (1993) reports the results of a recent field study of business-to-business exchange relationships in which supplier trustworthiness was negatively related to price discounting. Though far from conclusive, these results suggest that trustworthy suppliers of commercial goods may be able to command a premium on trustworthiness. These findings are consistent with an earlier study reported by Schurr and Ozanne (1985) in which the data from a simulated bargaining exercise revealed a relationship between seller trustworthiness and buyer price concessions and levels of cooperation and agreement. In addition, Garmaise (1993) reports evidence of a relationship between supplier trustworthiness and both the desire on the part of buyers for the exchange relationship to continue and increased dependence of the buyer on the supplier. Buyers increased dependency on trustworthy suppliers by incorporating suppliers' contributions into their competitive strategy.

Similar results are reported by Dyer (1994) from a study comparing Japanese and U.S. automakers. Dyer (1994) found Japanese automakers to have economic performance advantages due to the governance structures of alliances in which suppliers relied heavily on the trustworthiness of the automakers. The data suggested that the automakers' trustworthiness enabled cospecialization in site and human assets by suppliers. Therefore, trustworthy automakers were able to enjoy the benefits of decentralization without sacrificing economies of scale, coordination, or specialization of assets. Empirical analysis of the data indicated that site asset specialization by suppliers was related negatively to automakers inventory costs and specialization of human assets was related positively to car quality and negatively to the cycle time of new model introductions. Overall asset specialization by suppliers was related to automaker profitability.

Other research studies concerning strategic alliances provide evidence that trust between exchange partners is related to the contractual form of governance (Gulati, 1995; Parkhe, 1993). Parkhe (1993) reports empirical evidence that trust is related to lower levels of contractual safeguards. Analyses of the data from Gulati's (1995) multi-industry study of interfirm alliances

formed by American, European, and Japanese firms between 1970 and 1989 indicate that trust between exchange partners is related to nonequity forms of alliance. These findings are consistent with the results of a recent study reported by Kim (1994) which investigated the commitment and opportunism outcomes of different forms of governance involving original equipment manufacturers and their suppliers. Data from this study revealed market and authority governance to be related negatively to the commitment of the partners to the exchange relationship, while trust governance was positively related to commitment. Opportunism was related positively to authority governance and negatively to trust.

In summary, trust seems to be the key to leader influence and followership. Research indicates that (1) trust must be earned, is situational, and reciprocal; (2) leaders gain the trust of constituents by demonstrating personal integrity and the competencies required for a given role and context; and (3) trusted leaders are influential and effective in gaining the cooperation and support of others. A number of studies have shown a positive relationship between leader trustworthiness and a variety advantageous outcomes at the individual, group, and institutional levels. There is evidence that leader trustworthiness is related to a individual attitudinal and behavioral outcomes such as commitment to decisions, goals, and the organization; congruence between individual and organizational goals and values; job satisfaction and involvement; job performance and organizational citizenship behaviors; and organizational outcomes such as teamwork and effective problem-solving and communication. Although limited, additional research indicates that trustworthiness and trust among economic exchange partners play an important role in minimizing transaction costs, increasing exchange adaptability/flexibility, enhancing the commitment of partners to the exchange relationship, reducing the need for price discounting, and enhancing competitive advantage and firm profitability.

Summary

The effort to understand why some organizations achieve competitive advantage over their competitors is a primary focus of strategic management research. Competitive advantage is viewed as synonymous with superior organizational performance. Based on the assumption that firms differ in terms of the resources the possess, idiosyncratic firm attributes may serve as sources of competitive advantage if they have strategic relevance in creating economic value for the firm.

Strategic leadership is a multifaceted role and a specific leadership context. Strategic leaders are responsible for developing and maintaining an appropriate alignment between their organization and its environment as the means for achieving desired ends. Our knowledge concerning strategic leadership and its value as a resource is very limited. Micro- and macro-approaches to the study of leadership are very different in terms of their focus. Micro-approaches tend to focus on the interpersonal influence aspects of leadership while macro-approaches tend to focus on leader activities, the content of decisions (i.e., strategies and structures), and environmental contingencies related to the effectiveness of various decisions. A synthesis of these approaches is needed in order to examine leadership as a resource with value-creating potential for the firm.

The trust literature suggests that leader trustworthiness is critical in gaining and maintaining the cooperative efforts of others. Research evidence indicates a number of positive outcomes associated with trust and trustworthiness in organizational settings. It appears that trustworthy leadership may be an organizational resource with value-creating potential that may enable the organization to achieve competitive advantage.

The theoretical development of two models of trustworthy strategic leadership as a competitive advantage is presented in the following chapter. Hypotheses are proposed for each model. Chapter 3 is followed by a description in Chapter 4 of the methodology employed in this study to test these hypotheses.

CHAPTER 3

THEORETICAL MODELS & RESEARCH HYPOTHESES

Trustworthy Strategic Leadership as a Universal Advantage

The background literature concerning leadership and the benefits of leader trustworthiness and trust-based relations suggests that trustworthy strategic leadership is always more beneficial than untrustworthy leadership. This universal perspective follows from behavioral perspectives suggesting that to the degree strategic leaders are able to elicit cooperation on the part of managers, employees, and external stakeholders such that their attention, behavior, and energies are engaged in assisting the achievement and maintenance of the organization's internal and external environmental alignments through the effective acquisition and utilization of resources, the leader will be more effective and the organization will achieve higher levels of performance. According to this view, organizations with trustworthy leadership have a universal advantage leading to superior competitive performance.



The following detailed description of the behavioral perspective leads to the development of the universal advantage model and hypotheses tested in this study.

Support for the universal advantage of leader trustworthiness begins with the basic premise that trustworthy leaders are more influential than untrustworthy leaders in eliciting and sustaining cooperative efforts from others. As people of integrity, competence, vision, inspiration and goodwill, trustworthy leaders inspire constituents' trust and willingness to cooperate (Gabarro, 1978; Kouzes & Posner, 1993a; O'Reilly, 1984; Zaleznik, 1989). As discussed in the previous chapter, the willing

cooperation of organizational members facilitates collaboration (Roethlisberger & Dickson, 1939), innovative behavior (Katz & Kahn, 1978), spontaneous give and take (Thompson, 1967), contributions beyond formalized role requirements (Katz & Kahn, 1978; Organ, 1990; Barnard, 1938), coordination and efficiency (McAllister, 1995). Contemporary discussions and research concerning organizational culture (e.g., Ouchi, 1980; Schein, 1985; Kerr & Slocum, 1987) and organizational citizenship behavior (e.g., Bateman and Organ, 1983; Morrison, 1994; Organ, 1988; Williams & Anderson, 1991) affirm of the importance of *willingness* to effective organizational functioning.

Strategic leaders are also concerned with influence beyond their organization's boundaries. Gaining favorable support and cooperation from external constituents or stakeholders may be critical to achieving an alignment between the organization and its environment. The often cited turnaround of Chrysler under the leadership of Lee Iacocca is a good example of the importance of a leader's influence. Without government support, union cooperation and consumer trust, it is unlikely that Chrysler would have survived.

A second supporting premise, which is based on cognitive dissonance theory (Festinger, 1957), is that the content of a leader's influence attempts will be consistent with his or her character. The substantive and symbolic activities initiated or supported by a leader will be consistent with and reflect the trustworthiness of that leader. Trustworthy leaders, therefore, can be expected to attempt to muster support for strategies and policies which are congruent with the dimensions of trustworthiness: honesty, integrity, competence, inspiration, and goodwill. Otherwise, leaders are not likely to be perceived as trustworthy. Organizations with influential trustworthy leaders may be expected to exhibit practices related to ensuring such priorities as truth in advertising, equitable compensation decisions, product safety and integrity, good faith bargaining, timely accounts payable procedures, and intolerance for employee dishonesty and unethical behavior. Through the content of

substantive and symbolic activities, trustworthy leaders help to create trustworthy organizations. Therefore, trustworthy leaders enable their organizations to build and maintain relationships with internal and external agents that enhance effectiveness and efficiencies. To understand how this works, one must consider the leadership process.

Internally, strategic leadership and followership begin at the top of the organization, within the top management team (TMT). In essence, the chief executive is the designated leader among leaders. Theorists have suggested that strategic decision-making teams need leadership (Adair, 1988; Thomas, 1988) and that the leader of such a team must gain the trust of the team members (Eisenhardt, 1989) in order to be effective. Major organizational decisions, such as changes in corporate strategy, internal organization, or production technology, require the support of the TMT and obtaining agreement often requires the application of social influence beyond the authority of one's formal position (Day & Lord, 1988; Katz & Kahn, 1978). Leader trustworthiness sets in motion the reciprocity of trusting behavior which creates a climate of trust within the TMT. Decision processes are more consultative and participative. Communication and decision-making quality are enhanced. However, not all strategic decisions will be made by group consensus. Time pressures and other circumstances often require a leader to make decisions without team consensus (Bourgeois & Eisenhardt, 1988; Eisenhardt, 1989; Woolridge & Floyd, 1990) and, given the diversity of views and interests within the group, these decisions may be unpopular with some members. Nevertheless, the chief executive, whether CEO or division general manager, must rely on the commitment and leadership efforts of members of the management team to make any vision and/or strategic decision a reality.

Leader trustworthiness may be an essential component in gaining the support necessary to build an organization capable of effective decision making and strategy implementation. Korsgaard and his associates (1995) argue, that the "leader needs the trust of members to maintain direction over the

process of making and implementing strategic decisions" (p. 67) and "if a team's leader has not created in team members the necessary level of trust, lack of cooperation with decisions, unwillingness to share information, and sabotage of future decision processes may result" (p. 62). This is consistent with Zand's (1972) dynamic, spiral- reinforcement model of trust. Leadership within the TMT, however, is only the beginning.

Effective strategic leadership also involves gaining the support of constituents beyond the TMT. Constituents outside the TMT generally have limited personal contact with the chief executive. Meindl (1990) suggests that most organizational members are unlikely to have direct contact with high ranking executives and, when they do, the contact tends to be superficial and cursory. Constituents external to the firm may or may not have direct contact with the CEO. Depending upon the industry, customers may not even know who the CEO is, but they know there is one. The absence of interpersonal contact does not eliminate the possibility of trust or the importance of trustworthiness, however. As, Dunn (1988) points out, trust may exist under conditions of close familiarity or social distance. Developing trust and organizational support from a distance requires heavy reliance on indirect mechanisms of influence. Constituents come to *know* the designated strategic leader by reputation and attribute personal characteristics based on interpretations of the messages received from a variety of sources (Meindl, 1990, 1993; McCauley & Kuhert, 1992; Pastor & Mayo, 1994). Some of what constituents come to *know* is based on the content of substantive decisions and symbolic activities. Other information concerning organizational leadership is mediated by individuals both inside and outside the organization. The TMT and subsequent layers of management often mediate the leadership message to other members of the organization and to external stakeholders with whom they come in contact. Managers transmit messages concerning the behavior, values, and vision of the chief executive and the TMT as well as messages concerning their own commitment and followership. Constituents also receive information from published reports

concerning organizational leadership and activities. The messages derived from these sources, whether intended or accidental, result in a trickle-down leadership effect (Yammarino, 1994; Hunt, 1991). As observed by Likert (1961), the strategic leader sets a climate or tone in an organization that permeates the leadership style throughout the organization. Just as an autocratic leader will generate autocracy rather than participative leadership among subordinates who themselves are leaders (Likert, 1961), trustworthy leaders can generate trustworthy leadership in others.

Leader trustworthiness also impacts the development of organizational culture in ways that facilitate organizational functioning. Through their leadership efforts, trustworthy leaders build organizational cultures in which the trustworthiness becomes an organizational value underlying behavioral norms. The role of trust as a desirable cultural attribute associated with cooperation is often highlighted (e.g., Ouchi, 1980; Whitney, 1993). In his recent book, *The Trust Factor*, John Whitney (1993) discusses trust as an organizational attribute necessary for effective functioning. He stresses that a climate of trust depends upon the fostering of integrity, competence, reliability, and fairness through the management of purpose, structure, policies and procedures. Trust in leader becomes trust in the organization. A climate of trust among employees enhances the quality of communication, decision making, cooperation and coordination. A climate of trust is conducive to organizational learning, risk-taking, and creativity. Trustworthiness and cooperation become expectations and behavioral norms. As trustworthy leadership builds commitment to a shared vision and congruence between individual and organizational goals, the organization benefits from member involvement, commitment, job satisfaction (Fiedler, 1993) and reduced turnover. Fear is eliminated as a distractor and a creator of costs. The efficiencies of social control mechanisms reduce costs typically associated with supervision, discipline and turnover.

Trustworthy leaders enable organizations to develop trust-based relationships with agents external to the organization both as representatives of the firm in important stakeholder relationships

and as creators of trustworthy organizations. As the literature concerning interfirm exchange relations suggests, trustworthiness provides access to exchange opportunities and trust-based relations between firms. Ring and Van de Ven (1992) point out that cooperative trust-based arrangements with other firms may provide access to new technologies or markets, economies of scale in research, production and/or marketing, and competencies from sources outside the firm. Organizations are able to share risks and combine strengths to overcome weaknesses. Exchange relations based on trust provide exchange adaptability/flexibility and efficiencies due to search costs savings, expediency and the reduction of various transaction and governance costs. By minimizing the need for price discounting and influencing customer confidence, trustworthiness can affect income as well as costs. These outcomes impact competitive capabilities and economic performance.

Therefore, through a complex network of outcomes, leader trustworthiness enables an organization to reap economic benefits simultaneously from enhanced strategic unity and organizational adaptability. Strategic unity exists when stakeholders inside and outside the organization understand, accept and act to support the organization's value-added strategy (Ulrich, 1991). Organizational adaptability is the organization's ability to respond to change. When constituents are able to trust the leader(s) and leadership efforts, they are receptive to direct and indirect influence attempts and inclined to cooperate in enacting the future charted by their leader(s). The ability to be unified and adaptable simultaneously supports the achievement and maintenance of the organization's alignment with the environment, the accomplishment of organizational objectives and superior competitive performance. Leader trustworthiness, therefore, should enhance the effectiveness of strategic leadership efforts. One would expect that trustworthy strategic leaders would be superior in accomplishing targeted results and enhancing their organization's competitive performance. These perspectives are represented in the research model featured in Figure 3.1 and the hypotheses that follow.

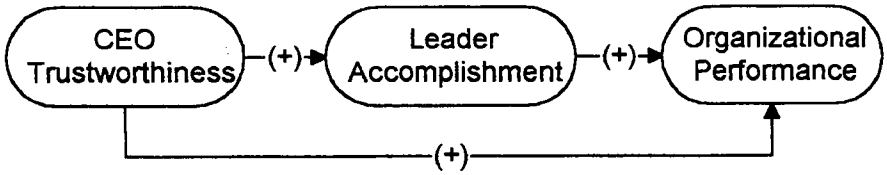


Figure 3.1. Behaviorally-based Model of Leader Trustworthiness as a Universal Advantage

Hypothesis 1a: CEO trustworthiness is positively associated with leader accomplishment.

Hypothesis 1b: Leader accomplishment is positively associated with organizational performance.

Hypothesis 1c: CEO trustworthiness is positively associated with organizational performance.

An alternative to the universal model is suggested by the resource-based view of competitive advantage. The remainder of this chapter presents a context-specific model of trustworthy strategic leadership as the source of competitive advantage based on this view. Hypotheses are developed for partially testing this context-specific model of leader trustworthiness as an organizational advantage.

Trustworthy Leadership as a Context-Specific Advantage

According to the resource-based perspective, the potential of any resource to be a source of competitive advantage depends upon its strategically-relevant value and its rareness among competitors (Barney, 1991; Rumelt, 1984). Resources that enable the firm to conceive and implement strategies that improve its efficiency and effectiveness are generally considered valuable (Barney, 1991). From the previous discussion supporting the universal model, it is clear that leader trustworthiness is beneficial in the sense that it "enables organizations to do things and behave in

trustworthiness is beneficial in the sense that it "enables organizations to do things and behave in ways that add economic value to the firm" (Barney, 1986a). Therefore, trustworthy leadership may be considered a valuable resource. However, the strategic relevance and ultimate value of any resource as a source of competitive advantage may be expected to vary with internal and external environmental conditions (Barney, 1995; Miller & Shamsie, 1996). In addition, if trustworthy leadership is prevalent and available to all competitors, any potential value would also be available to all competitors. Under these conditions, no differential competitive advantage based on trustworthy leadership could be established. Therefore, the resource-based view suggests that the potential for strategic leader trustworthiness to be the source of competitive advantage depends upon its rareness in the competitive arena and its context-specific value.

Barney (1995) suggests that factors in two contextual domains determine the strategic value potential of any resource: (1) the internal organization and (2) the environment external to the firm. Barney argues that the organizational context must enable the firm to exploit the resource in creating value for the firm and that the value created must be appropriately matched to external opportunities and demands. Miller and Shamsie's (1996) recent description of knowledge-based vs. property-based resources and their advantages point to external contingencies for the value of trustworthy leadership as a source of competitive advantage. Others, focusing on the benefits of trust-based exchange relationships, have argued that the value of trust and trust-based relations is limited to environments which provide incentives for opportunistic behavior (Barney & Hansen, 1994). These perspectives suggest the contingency model of leader trustworthiness as a source of competitive advantage depicted in Figure 3.2a Further explanation of the model in the following sections leads to the development of testable research hypotheses.

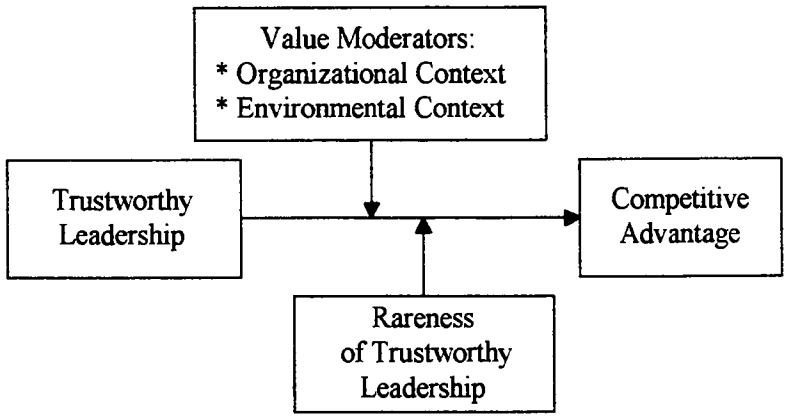


Figure 3.2a. Resource-based Contingency Model of Trustworthy Leadership as a Competitive Advantage.

The Rareness of Trustworthy Leadership

To be a source of competitive advantage, a valuable resource must also be rare. Barney (1991) points out that exactly how rare a valuable resource must be in order to have potential for generating a competitive advantage is a difficult question. He suggests that "in general, as long as the number of firms that possess a particular valuable resource (or a bundle of valuable resources) is less than the number of firms needed to generate perfect competition dynamics in an industry (Hirshleifer, 1980), that resource has the potential of generating a competitive advantage" (p. 107). Although empirical examinations of leader trustworthiness and closely related topics such as leader credibility, integrity, and competence in the context of strategic leadership are extremely limited, there appear to be several indications that, in general, trustworthy strategic leaders are in short supply.

Popular publications, citing antidotal evidence from the popular press and business community highlight a lack of trustworthiness among business leaders (e.g., Bennis, 1989; Maccoby, 1976; Zaleznik, 1989). According to Maccoby (1976), the dominant upper echelon corporate character, at

least during the 1970s, was what he calls the "gamesman", one who is fundamentally self-centered and concerned mostly with his/her own career and glory. A combination of robber baron and organization man, the gamesman is neither compassionate nor generous and leads in an unprincipled fashion, manipulating others for the sake of winning the "game". The 1980s and 1990s appear much the same. Sherwin Klein (1988) observes that the excessive desire to win at all costs, using extremely competitive means, has tended to mold a hard, cold, unprincipled and manipulative business character. Warren Bennis (1989) notes a decline in business ethics and emphasizes the need for moral character in leadership. Numerous reports of business failures, plant closings, mismanaged change efforts, and scandals involving unethical and socially irresponsible business practices have cast doubts on the leadership capacity of those in charge (Kouzes & Posner, 1993a; Wanous, Reichers & Austin, 1994; Zaleznik, 1989).

Kouzes and Posner (1993a) suggest that the boon in self-help management books during the late 1970s and 1980s was in large measure a "triumph of image over character, and style over substance" (p.22). Zaleznik's (1989) critique of leadership in America points to the predominance of the "professional manager" since the mid-1960s whose consciousness has been dominated by a philosophy he refers to as the "managerial mystique". As described by Zaleznik, this mindset emphasizes control and organizational politics; faith in numbers, systems, processes, and elaborate structures; and the art of manipulating people to get things done. The mystique encourages depersonalized management and diffused accountability. Zaleznik argues that this professional management is not [trustworthy] leadership and that human character (substance, humanity, and morality) is urgently needed to overcome the diminished capacity of executive leadership in American enterprise. Others are also pointing to the need for executive integrity (Badaracco & Ellsworthy, 1989; Locke, 1991; Srivastva & Associates, 1988), principle-centered leadership (Covey, 1992), and trust (Bennis, 1989; Horton & Reid, 1991; Whitney, 1993) in business organizations.

Though limited, there is empirical evidence that workers are often disillusioned with business leaders and skeptical of management practices (Kouzes & Posner, 1993a; Mirvis & Kanter, 1991; Harris & Associates, 1991; Wanous, et al., 1994). Kouzes and Posner's (1993a) research on leader credibility reveals a widespread gap between what managers want from their leaders in terms of honesty, competence and inspiration and what they believe they are getting. A recent series of office worker studies conducted by Harris and Associates for Steelcase (1991) also documents this gap. One study reported that, although 89 percent of the 1,031 office workers surveyed in the U.S. said that it is "very important" for management to be "honest, upright, and ethical" in their dealings with employees and the community, only 41 percent believe that it is "very true" that management is so. Similar results were reported for Canada, the European Economic Community, and Japan (Harris & Associates, 1991). Mirvis and Kanter (1991) report that analyses of data from a national U.S. workforce sample surveyed in 1990 revealed the spread of cynicism across age, race, social class, gender, occupation, and organization-type segments. The data indicated a positive relationship between generalized cynicism which concerns society and other people in general and more specific cynical views of people's own organizations, managers, and co-workers. Mirvis and Kanter (1991) suggest that people in large measure bring cynicism with them to their jobs, but that cynicism is cultivated in cynical organizations. Kouzes and Posner (1993a) observe a growing sense among employees that management may not be competent enough or trustworthy enough to successfully guide their organizations in the increasingly turbulent and competitive environments they face.

As a resource, leader trustworthiness is not rare in the sense that it becomes depleted with use. It is rare, at least in part, due to its fragility. Sustaining the attribution of trustworthiness is difficult given the complexities inherent in the role of strategic leader. Strategic leaders are viewed as bearing the ultimate responsibility for all major organizational decisions such a goals, strategies, resource allocations, organizational systems, and policies. Strategic leaders get the credit (and the blame) for

human resource management practices concerning selection, promotion, development, and rewards; how up-to-date machinery and equipment are; and the ways in which customers are treated.

The fragile nature of leader trustworthiness is illustrated by recent research concerning organizational cynicism that indicates that organizational members attribute failed organizational change efforts to the motives and/or abilities of those responsible for managing the change (Wanous et. al., 1994). Multiple constituencies and interdependencies require delicate balance. Conflict is inevitable and the evidence of trustworthiness is always open to interpretation.

In summary, observations by business commentators and researchers indicate that the quality of character of strategic leaders in many organizations is in question. Managers and workers have become disillusioned and are skeptical of top managements' integrity and business practices. The leadership "credibility gap" is widespread and confidence in top management has eroded as managerial and nonmanagerial employees fail to see the honesty, competence, inspiration, vision, and goodwill they expect from their leaders. Given these observations, it appears that leadership trustworthiness is a scarce resource that is sufficiently rare in modern business organizations to be examined as a potential source of competitive advantage.

Contingencies of Value Creation

Organizational Context

Barney (1995) suggests that in order for any firm resource to be a source of competitive advantage, the organizational context must enable the firm to exploit the resource in creating value for the firm. Given the nature and development of trust and its outcomes, two contextual characteristics that appear particularly relevant to maximizing the value of trustworthy leadership are organizational size and the tenure of the leader.

Organizational Size

Organizational size is routinely examined in organizational studies as an important structural variable linked to many aspects of organizational design and functioning. Research indicates that large organizations are very different from small organizations along several dimensions of structure. Size tends to be related positively to the structural characteristics of *complexity* (e.g., Child, 1977; Dewar & Hage, 1978; Hall, Haas & Johnson, 1967), *decentralization* (e.g., Blau & Schoenherr, 1971; Miller & Droge, 1986; Miller, Droge & Toulouse, 1988) and *formalization* (e.g., Child, 1977; Hall, 1972; Miller & Droge, 1986; Miller, Droge & Toulouse, 1988).

As size increases, *complexity* increases both horizontally and vertically. Large organizations tend to be characterized by increased specialization and departmentalization (e.g., Burns & Stalker, 1961; Child, 1977; Hall, 1972; Hall, Haas & Johnson, 1967). For example, staff support groups tend to increase in proportion to organizational size (e.g., Daft, 1978; Child, 1973). The increased number of subunits and people creates difficulties in communication, coordination and control (Hall, Haas & Johnson, 1967). In order to keep spans of control from becoming too large, additional layers of management are added, increasing the vertical complexity of the organization (Daft, 1983). The more subunits and layers, the more complex the organization and the more strategic leadership relies on indirect influence mechanisms such as intermediaries and formalized practices.

The concept of centralization refers to the location of decision-making authority in the hierarchy. The more authority is retained at the highest levels, the more centralized the organization. Research studies generally indicate that centralization decreases as organizational size increases (e.g., Lal-Mohan, 1991; Miller & Droge, 1986; Miller, Droge & Toulouse, 1988). Large organizations permit greater delegation of decision authority simply because all decisions cannot be passed to those at the top without overloading senior management.

A typical management practice is to delegate the authority to make routine operating decisions (i.e., decentralization), but to retain authority to make strategic decisions (i.e., centralization) (Gibson, Ivancevich, & Donnelly, 1997). The delegation of operating authority creates the need for checks on its use. Written guidelines for decision making and reporting are commonly utilized mechanisms to delimit decision-making discretion at lower levels of management, allowing for more systematic delegation of authority (Blau & Schoenherr, 1971). Choice may be constrained further as the degree of formalization increases.

Formalization refers to the extent to which expectations regarding the means and ends of work are specified, written, and enforced (Gibson, Ivancevich, & Donnelly, 1997). Research consistently indicates that the degree of formalization within organizations tends to increase as organizational size increases (e.g., Burns & Stalker, 1961; Child, 1977; Hall, 1972; Hall, Haas & Johnson, 1967; Miller, Droge, & Toulouse, 1988). As organizations grow, written documentation specifying roles, relationships, policies, and procedures becomes more prevalent. This formality is intended to ensure efficiency, reliability and predictability through "rules" that specify behavioral expectations and coordination across structural boundaries.

Ideally, these structural characteristics would have the positive performance impact intended by Max Weber (1947) when he first described the bureaucratic model of organization. Early empirical evidence supports the positive relationship among size, bureaucracy and organizational performance (e.g., Child, 1975). Child's survey of business organizations in England indicates that as organizations grow larger, higher performance is related to the degree of bureaucracy. For small organizations (less than 2,000 employees) in the study, the high performing companies were structured more informally. However, as organizations become very large structural forces may constrain leadership.

Several theorists suggest that the potential impact of individual leaders is limited by the structural correlates of size. Some argue that formalization substitutes for personal leadership and that formalization and spacial distance between leader and subordinates neutralizes (or negates) the leader's ability to directly increase or decrease follower satisfaction or performance (e.g., Kerr & Jermier; 1978; Manz, 1986; Orpen & Hall, 1994). Others argue that top-level designated leaders have limited potential to impact organizational outcomes in large organizations due to structural inertia which inhibits adaptation and limits decision discretion (e.g., Hannan & Freeman, 1977, 1984; Weiner, 1978). Hannan and Freeman (1977) identify a number of processes that generate structural inertia and limit the ability of large organizations to adapt. These inertial pressures are seen as arising from internal structural arrangements and from environmental constraints. The internal factors include the sunk cost of firms, communication structures, internal politics, and the dominance of institutional norms (1977, p. 931). A similar argument made by Miller and Friesen (1980) deals with the notion of *pervasive momentum* that causes "sluggish adaptation" to environmental changes. Hall (1977) even suggests that large organizations tend to be swept along and somehow run themselves.

Therefore, the organizational context within large organizations may be less conductive to exploiting leader trustworthiness as a source of competitive advantage. As complexity, decentralization, and formalization increase with size, the distance between strategic leaders and constituents increases. Leadership becomes more dispersed and indirect. Chief executives delegate more responsibility for the management of internal and external stakeholder relationships. The more people and boundaries within the organization, the more layers and filters between strategic leaders and the organization's stakeholders. With increased size comes greater potential for misinterpretation and distortion of information. These factors are likely to constrain the development (and increase the potential destruction) of a reputation for trustworthiness.

Where complex and rigid structures impose constraints that acquire their own momentum in channeling organizational activity, the organization's capability for capitalizing on leader trustworthiness may be limited. Smaller organizations are generally more flexible because they do not require elaborate structural mechanisms to function effectively. The impact of leader trustworthiness on organizational outcomes seems more likely in smaller organizations where leadership can remain more personal and the dysfunctional outcomes of size (i.e., departmental differentiation, suboptimization, resistence to change) are less pervasive (e.g., Jelinek, 1986; Thompson, 1961; Miller, 1982). Therefore, smaller organizations may be more capable of capitalizing on the potential of leader trustworthiness to create value for the firm.

This proposition is consistent with research providing evidence of stronger relationships between organizational outcomes and other leader characteristics such as locus of control (Miller & Toulouse, 1986) and the need for achievement (Miller & Droge, 1986; Miller, Droge & Toulouse, 1988) in smaller as opposed to larger organizations. Perhaps, leader characteristics, in general, have more value in smaller organizations.

Therefore, organizational size may be expected to moderate the relationship between leader trustworthiness and organizational performance. The following hypothesis expresses the proposed moderating effect:

Hypothesis 2: CEO trustworthiness and organizational performance will be more positively associated as organizational size decreases.

CEO Tenure

The nature and development of trust and its outcomes suggest that time is a necessary factor related to an organization's ability to exploit the value potential of trustworthy leadership. As discussed in the literature review in Chapter 2, a primary characteristic of trust is that it is provisional and must be earned. The cognitive and affective aspects of trust are not instantaneous responses that

can be induced at will with respect to oneself or to others. Rational individuals cannot simply decide to believe that they trust someone if they do not (Gambetta, 1988; Williams, 1973). Trust depends upon the accumulation of knowledge from various sources and "good reasons" supporting the worthiness of another to be trusted (Whitney, 1993; Hart, 1988; Dasgupta, 1988; Gabarro, 1978). The situational nature of trust requires the satisfaction of role-specific criteria (Gabarro, 1978; Stack, 1978; Bennis, 1989; Kouzes & Posner, 1993a). Building a reputation as a trustworthy leader requires time in office to demonstrate personal integrity and the leadership competencies needed by the organization.

Once trust begins to grow, additional time is needed for the individual attitudinal and behavioral effects to impact group and organization-level outcomes. The positive effects of cooperative relations with various stakeholders emerge as relationships and opportunities develop over time. Even the most trusted and influential leaders must have adequate time to shape cultural norms through policies and practices which reinforce trustworthiness as an organizational value.

The logic of the tenure contingency is supported by Kotter's (1982) suggestion that organizational experience allows trustworthy leaders time "to develop a network of cooperative relationships among those people they feel are needed to satisfy their emerging agendas" (p. 161). With regard to structural changes, Miller and Friesen (1984) suggest that time is required (as much as five years) for CEOs, in general, to have an impact. A study of the relationship between CEO personality and structural dimensions reported by Miller, Droge, and Toulouse (1988) provides support for the moderating effect of tenure. The relationships were stronger in organizations where CEOs had tenure in excess of five years. Additional support for the importance of tenure is provided by empirical results reported by Slater (1989) indicating a positive relationship between the organizational tenure of SBU general managers and business unit performance, regardless of the competitive strategy being pursued.

Therefore, CEO tenure may be expected to moderate the relationship between strategic leader trustworthiness and organizational performance. The following hypothesis expresses the moderating effect:

Hypothesis 3: CEO trustworthiness and organizational performance will be more positively associated as CEO tenure increases.

Environmental Context

A second domain thought to determine the value of any resource as a source of competitive advantage is the external environment (Barney, 1995; Miller & Shamsie, 1996). Miller & Shamsie's (1996) recent description of knowledge-based vs. property-based resources and their advantages point to environmental uncertainty as an important contingency for the value of trustworthy leadership. These perspective are consistent with those of others who, focusing on the benefits of trust-based exchange relationships, argue that the value of trust and trust-based relations is limited to environments that provide incentives for opportunistic behavior (Barney & Hansen, 1994).

Environmental Uncertainty

Miller and Shamsie (1996) suggest that the level of environmental uncertainty determines whether or not certain types of resources will create strategic value for the firm. In distinguishing between types of resources, they define property-based resources as those which "tie up a specific and well-defined asset" (p. 521) and are protected from imitation by property rights such as contracts, patents and deeds of ownership. Knowledge-based resources as those that are "subtle and difficult to understand" which are protected from duplication by competitors "because they involve talents that are elusive and whose connection with results is difficult to discern" (p. 522). Miller and Shamsie offer the following description:

> .....Knowledge-based resources often take the form of particular skills: technical, creative, and collaborative. For example, some firms have the technical and creative expertise to develop competitive products and market them successfully.

> Others may have the collaborative or integrative skills that help experts to work and learn together effectively (Fiol, 1991; Hall, 1993; Itami, 1987; Lado & Wilson, 1994).
>
> Knowledge-based resources allow organizations to succeed not by market control or by precluding competition, but by giving firms the skills to adapt their products to market needs and to deal with competitive challenges. Economic rents accrue to such skills in part because rivals are ignorant of why a firm is so successful. ...The protection of knowledge barriers is not perfect–it may be possible for competitors to develop similar knowledge and talent. But this normally takes time, and by then, a firm may have gone on to develop its skills further and to learn to use them in different ways (Lado & Wilson, 1994) (1996: p. 522).

In contrasting the advantages of property-based resources with knowledge-based resources, Miller and Shamsie (1996) go on to state:

> Property rights allow a firm to *control* the resources it needs to gain a competitive edge. They may, for example, tie up advantageous sources of supply, keeping them out of competitors' hands. Such control of a specific asset, in effect, is the only source of value for property-based resources. Knowledge-based resources typically are better designed to respond and *adapt* to the challenges facing an organization. ...Of course, property- and knowledge-based resources are not always independent, as the latter may sometimes be used to develop or procure the former (p. 523).

Therefore, as property-based resources are quite specific and fixed, they are most beneficial for the environment for which they were developed. On the other hand, knowledge-based resources, which tend to be less specific and more flexible, are most beneficial in environments which are changing and unpredictable (Miller & Shamsie, 1996).

Trustworthy leadership and the complex network of outcomes which have been described to combine in enhancing *strategic unity* and *adaptability* appear consistent with Miller and Shamsie's (1996) description of knowledge-based resources. Competitors should find perfect imitability difficult, if not impossible, not only because of causal ambiguity and the social complexity of the phenomena (Dierickx & Cool, 1989), but also because of the unique historical conditions (Barney, 1991) shaping their contribution. Causal ambiguity exists when the link between the resources of the

firm and the firm's superior performance is not understood or is understood only imperfectly (Barney, 1991; Lippman & Rumelt, 1982; Reed & DeFillippi, 1990). Social complexity refers to the degree to which resources and their utilization are social phenomena beyond the ability of firms to systematically manage or engineer (Barney, 1991; Dierickx & Cool, 1989). To the extent that socially complex resources are not subject to direct management, these resources cannot be perfectly imitated (Barney, 1991).

Some ambiguity concerning the links between trustworthy leadership and organizational performance no doubt results from the intangibility of trustworthiness and many of its outcomes such as motivation, commitment, and values integration. In addition, the complexities of both direct and indirect strategic leader influence are not well understood. The myriad of theories concerned with strategic management, organizational design and organizational behavior offer alternative explanations for the potential outcomes of trustworthy leadership. However, the primary reason for causal ambiguity concerning the outcomes of trustworthy strategic leadership is the inherent social complexity of leadership based on trust.

Should competitors observe that a successful firm has trustworthy leadership, it would be difficult to know exactly what opportunities and aspects of performance were derived from the trustworthiness of the leadership and how these outcomes over time led to other events which contributed to efficiencies and competitive advantage. The more volatile the environment, the more rapidly change occurs in unpredictable ways, the less time observers have to discern causal links underlying the firm's adaptation. The unique chain of major and minute interrelated outcomes that develops over time is path dependent (Arthur, 1989) and becomes too complex to trace. By definition, leadership is socio-relational and the utility of trustworthy leadership is embedded in complex social relationships. Any level of strategic unity and organizational adaptability resulting from a network of interpersonal and interfirm relations based on trust would be difficult to fully

understand even by those firms that achieve it. Zaleznik (1989) suggests that leaders themselves rarely understand the "leadership compact" because executives have been trained and inculcated to practice according to the managerial mystique.

Even if competitors were to identify trustworthy leadership as a determining factor of competitive advantage, imitation would still be unlikely because neither a reputation for trustworthiness nor the trusting responses from others can be controlled. In that trust cannot be induced at will (Gambetta, 1988; Williams, 1973), tends to develop over time as the by-product of actions taken for other purposes, and that efforts to impress another of one's trustworthiness will be perceived as manipulative instrumentality (Elster, 1981), it is unlikely that firms will be able to consciously engineer trust or trust-based relations simply by copying decisions and behaviors of trustworthy leaders. The development of trust must be earned over time and any firm attempting to acquire trustworthy leadership or become a trustworthy organization in order to develop supportive relationships would remain at a follower's disadvantage to the firm being imitated. In addition to the time compression diseconomies (Dierickx & Cool, 1989) of such path dependent phenomena (Arthur, 1989) which makes them costly to imitate, firms with trustworthy leadership may gain advantage over competitors by being the first to be identified as a trustworthy employer and exchange partner. As the first to develop a cooperative culture, goodwill with customers, or access to information, distribution channels, or technology, trustworthy leaders may achieve *first mover advantages* (Liberman & Montgomery, 1988).

In addition, imitability is also difficult because the development of a reputation for trustworthiness and the relationships derived from trustworthy leadership are dependent upon unique historical conditions. Not only is a trustworthy strategic leader a unique individual with idiosyncratic competencies, the career and organizational events that lead to the attribution of trustworthiness are unique to the leader, the firm, and the historical conditions both internal and external to the firm.

Accrued relationships and their outcomes that evolve over time are functions of the firm's unique position and the position of other parties at particular points in time. As Barney (1991) suggests, firms are intrinsically historical and social entities and their ability to acquire and exploit some resources depends upon their unique place in time and space. Therefore, trustworthy leadership and the strategic capabilities that result from it will be unique to the firm because the initial asset base was heterogeneous. Without these same time- and space- dependent circumstances, competitors will be unable to duplicate the leadership or its beneficial effects. Trustworthy leadership is firm-specific and, therefore, more valuable to a firm than to its competitors (Dierickx & Cool, 1989; Miller & Shamsie, 1996).

According to the rationale employed by Miller and Shamsie (1996) the strategic value of trustworthy leadership rests in its cumulative effects which enable the organization to function more efficiently and effectively in uncertain environments. Facing an unpredictable and changing environment, organizations must be open to change and adapt quickly in order to maintain an appropriate alignment with the environment. Several outcomes derived from trustworthy leadership facilitate organizational responsiveness and adaptability. Certainly an internal organization that is responsive to leadership efforts facilitates adaptation as do effective problem-solving, teamwork, communication. A climate of trust facilitates creativity and risk-taking which are helpful during periods of transition. Response flexibility is also enhanced by trust-based relations with external stakeholders. For example, exchange relationships with suppliers which are based on trust, rather than detailed contingent contracts, allow for expedient modifications in the agreements which may be essential in responding to changes in consumer preferences or innovations in production technologies. These and many other outcomes of trustworthy leadership which facilitate organizational adaptability have been discussed in detail in earlier sections of this paper. Essentially, adaptability as an organizational capability derived from trustworthy leadership is only valuable in

environments which require adaptability, those that are changing in relevant and unpredictable ways. Adaptability in stable environments has limited utility.

Miller and Shamsie's (1996) proposition that knowledge-based resources lead to competitive advantage only in uncertain environments is consistent with an earlier argument by Barney and Hansen (1994) concerning environment as a contingency for the strategic relevance of trustworthiness. Focusing on economic exchange relations between firms, these theorists argue that the value created by leader and/or organizational trustworthiness is only strategically relevant in environments where there are incentives for opportunistic behavior on the part of exchange partners. Opportunism is characterized by behavior that is self-serving and exploits the vulnerabilities of others (Barney & Hansen, 1994). So defined, opportunism is essentially the opposite of trustworthiness. Individuals or firms may be said to be opportunistic to the extent that they engage in behaviors to exploit another's vulnerabilities and trustworthy to the extent that they do not (Barney & Hansen, 1994). Therefore, the potential for trustworthy leadership, which forms the foundation for trust-based exchange relations between firms, to be a source of competitive advantage is limited to the availability of exchange vulnerabilities that can be exploited for gain and environmental conditions which provide incentives for self-serving behavior. Indeed, trust theorists stipulate that trust is only relevant in situations where uncertainty of performance exists.

The potential for exchange risks due to opportunism has been discussed at length by several theorists. Williamson (1975, 1985) identified several conditions conducive to opportunistic behavior in economic exchanges. He suggests that small numbers of potential transactors, exchange frequency, uncertainty, and the specificity of assets dedicated to a particular transaction increase the potential for self-serving behavior. Ring and Van de Ven (1994) argue that exchange risks may also result from the parties' lack of time, control, and/or information (i.e., environmental uncertainty). Others have discussed risks in terms of the ways in which parties to an exchange can be vulnerable to the

opportunistic actions of others (Akerlof, 1970; Holmstrom, 1979; Klein, Crawford, & Alchian, 1978). Hold-up vulnerabilities exist when parties to an exchange make large asymmetric transaction specific investments which, in effect, lock them into the exchange relationship (Klein, Crawford, & Alchian, 1978). When the quality of the assets or resources offered by a potential exchange partner is difficult and very costly to accurately evaluate, parties are subject to adverse selection vulnerabilities (Akerlof, 1970). Even after the selection of exchange partners has been made, some parties may find it very costly to evaluate the quality of the resources or assets actually provided by other parties. In such cases, these parties are subject to moral hazard vulnerabilities (Holmstrom, 1979).

Although Barney and Hansen (1994) discuss these risks and vulnerabilities in the context of external economic transactions between firms, they appear equally relevant to exchanges between an organization and its workforce, customers, and other stakeholders. For example, in attempting to choose an offer of employment, a person may wish to evaluate the quality of worklife and future career opportunities provided by an organization. These are certainly organizational assets most organizations would prefer that potential candidates perceive. However, the candidate may be subject to the opportunity costs associated with adverse selection and moral hazard vulnerabilities if the organization does not offer the desired environment as promised. Exchange relations with customers may also be subject to opportunistic behavior. For example, much of what many organizations provide to customers is intangible, especially in service organizations, making the assessment of quality by customers difficult both before and after the purchase. Additionally, a community may offer tax and other cost incentives to a firm proposing to build a new production facility which will bring employment and revenues to that particular area. The community may make a variety of asset investments based on this agreement such as expansion of roads, utility services, and etc. Therefore,

the community may be subject to hold-up, adverse selection, and moral hazard risks should the organization fail to fulfill its commitments to the community.

Barney and Hansen (1994) argue that when competitive market dynamics provide adequate protection against opportunism, neither trust nor the more costly contractual forms of exchange governance are required. Such protection exists in commodity markets where products are homogeneous, price adequately represents quality, and consumers are indifferent as to the seller from which the product is purchased. Competitive dynamics provide adequate protection against opportunistic behavior because products are standardized and competition is based primarily on price (Barney & Hansen, 1994). These markets are generally mature and characterized by relatively stable demand, customer preferences, and technology. Therefore, trust-based exchanges offer no particular governance cost savings or flexibility advantages in such environments. Examples of markets with minimal exchange risks include those for farm commodities and many industrial products such as steel, zinc, aluminum, and cement which are virtually standardized in the physical sense (McConnell & Brue, 1995).

In noncommodity markets, however, producers engage in non-price competition based promises related to the quality of products and services provided. Through promotional activities such as advertising and packaging, firms seek to persuade buyers to select their firm's products over competitors' based on the value of non-price characteristics. Since price cannot provide complete information and the market cannot protect exchange partners from exchange vulnerabilities, exchange partners must rely on other means of assurance against risks associated with failed performance. Competitors unable to engage in trust-based relations would find it necessary to erect more elaborate and costly governance forms to discourage failures in performance. The costs associated with economic transactions are determined by the degree of risk perceived by parties to the exchange and trust reduces the perception of risk (Ring & Van de Ven, 1992). As Barney and Hansen (1994)

explain, when exchange partners trust that any vulnerabilities that may exist in the exchange will not be exploited, they need not incur additional investment in social or economic forms of governance. As long as the cost of developing and maintaining trustworthiness plus the cost of discovering trustworthy partners is less than the cost of exploiting or creating other governance devices, those engaging in trust-governed exchanges will gain a cost advantage over those unable to do so.

Given that noncommodity markets vary considerably in terms of life cycle stage, technological and market-related change can be expected to vary across firms competing in noncommodity industries. In general, however, firms competing in noncommodity industries can be expected to have higher levels of environmental uncertainty than those competing in commodity industries. To the degree that this is true, the arguments presented above concerning exchanges in noncommodity markets would seem applicable when environment is discussed in terms of uncertainty rather than type of industry. The central issue in Barney and Hansen's (1994) argument is whether the dynamics of competition protect exchange partners from opportunism. Can market dynamics protect exchange partners in uncertain environments? The nature of unpredictable change seems to suggest that any market characterized by uncertainty would be characterized by exchange vulnerabilities. For example, as firms seek to adapt products and practices to meet changing conditions, consumers and other exchange partners would be highly dependent on information provided by the firm, and therefore vulnerable, in assessing the merits of the evolving offerings. A trustworthy provider would seem at an advantage in such an environment.

It also seems reasonable to assume that by imposing costly change, uncertain environments provide pressures for opportunistic behavior. Unpredictable and changing market demand, competitor behavior, and product and process technologies requiring costly adjustments in strategies and structures can create pressures on profits. Organizational leaders, therefore, may be motivated to focus on short-term gains and exploit the vulnerabilities of various stakeholders in order to achieve

immediate self-interests. To the extent that environmental uncertainty encourages untrustworthy behavior, trustworthy leadership may be more scarce in uncertain environments than in more stable contexts. As incentives and pressures for opportunism increase, fewer trustworthy exchange partners are likely to be available. An organization with an established reputation for trustworthy leadership and organizational behavior would be in a strong position to capitalize on the benefits of trust-based relations.

Barney and Hansen (1994) suggest that many potentially valuable exchanges will not be pursued when the cost of governance needed to provide confidence in another's performance is greater than the expected gains from trade. These exchanges may only be available where trust between partners reduces the perception of risk. In this sense, trustworthiness may increase the set of exchange opportunities available to an individual or a firm compared to those available to another perceived as less trustworthy. To the extent that these valuable and highly vulnerable exchanges can be pursued only by trustworthy exchange partners, they may represent a substantial opportunity cost for competitors to which they are not offered. To the extent that strategic leaders are able to achieve an identity as a trustworthy exchange partner for themselves or their firm, by definition, others will perceive less risk of opportunism on their part. To the degree that perceived risk determines the form and the costs of exchange governance, efficiency-seeking economic actors can be expected to seek to engage in economic exchanges with trustworthy partners and build exchange relationships based on mutual trust in order to minimize exchange costs. Alternative forms of governance cannot be substituted for trust with the same efficiency. Therefore, trustworthiness offers the inimitable potential for forming trust-governed alliances that can result in a variety of advantages related to economic performance.

From the arguments presented above, it would seem that leader trustworthiness and the organizational capabilities deriving from it may have more strategic relevance in environments that

are relatively uncertain than in environments that are relatively stable. Therefore, one would expect environmental uncertainty to moderate the relationship between leader trustworthiness and organizational performance. The following hypothesis represents the proposed effect:

Hypothesis 4: CEO trustworthiness and organizational performance will be more positively associated as environmental uncertainty increases.

Summary

In contrast to the behaviorally-based model of leader trustworthiness as a universal advantage, the resource-based perspective suggests that organizational size, CEO tenure, and environmental uncertainty are important factors in determining whether leader trustworthiness can be a source of competitive advantage for a firm. The contingencies hypothesized to moderate the leader trustworthiness—competitive performance relationship are illustrated in Figure 3.2b.

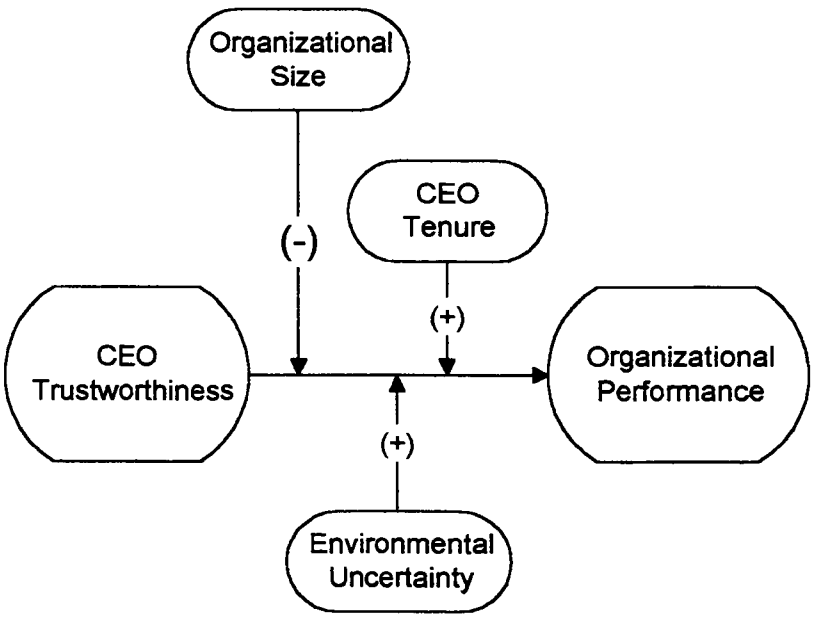


Figure 3.2b. Hypothesized Moderators of the Strategic Value of CEO Trustworthiness

The hypotheses based on both the universal and contingency models developed in this chapter were tested utilizing the methods outlined in the following chapter. The results and implications are discussed in Chapters 5 and 6, respectively.

CHAPTER 4

METHODOLOGY

This chapter describes the research methodology employed in the study. Initially, the population chosen for the study and sampling strategy are presented. Descriptions of the sample and data collection procedures follow. The third section provides brief descriptions of the dependent and independent variables and measures utilized in the study. Finally, the data analyses procedures are discussed.

Population

The population for the study was defined as nondiversified publicly-owned business firms located within the southeastern region of the United States. The study was limited to examining leadership in publicly-owned business organizations to minimize confounding variance due to systematic differences between various types of organizations. Earlier leadership research comparing various volunteer organizations with counterpart for-profit employing organizations suggests that both leaders and workers in voluntary organizations differ systematically from those in organizations staffed by regular employees (Pearce, 1982). Differences may also exist between public and private firms, for-profit businesses and not-for-profit or government organizations. Limiting the study to publicly-owned business firms allowed for some degree of control for leadership context and environmental differences.

Restricting the study to firms located in the southeast offered the potential for a balanced representation of firms from a wide variety of manufacturing and service industries. This was thought to avoid a disproportionate number of manufacturing firms from the heavily industrialized midwestern

and northeastern regions which are typically characterized by capital intensity and unionized labor. A regional study offered some, though limited, control for these regional differences as well as for potential cultural variations which might influence work ethic and human resources practices.

Firms in the population were identified from Compact Disclosure's SEC Database. The database was chosen because it provides comprehensive archival data, is easily accessible on CD-ROM, and is updated monthly. The database provides data on producers of direct goods and services that meet the following criteria: The firm must (1) have filed a 10-K, 20-K, or another significant financial document with the SEC within the past eighteen months; (2) be listed on a national securities exchange or trade securities over the counter; (3) have at least five hundred shareholders of one class of stock; and (4) have at least $5.0 million in assets.

Sampling Strategy

A multi-industry random sample of firms was drawn from the database according to the following criteria: (1) *The business activities of the firm were confined to a single industry as indicated by the reporting of a single four-digit SIC code.* Single-industry firms are less complex in terms of structure, products and competitive environments than diversified firms. The simplicity of single-industry competition was thought to enable executives to make assessments concerning environmental conditions within their industry, identify primary competitors and make comparative assessments concerning organizational performance; (2) *The firm was headquartered within a seven-state southeast region of the United States.* The region included the states of Florida, Georgia, Kentucky, North Carolina, South Carolina, Tennessee, and Virginia.

A multi-industry sample was selected to enhance the generalizability of the findings across business organizations. Single-industry studies are often suggested in the strategic management literature in order to avoid potential difficulties in making comparisons of organizational strategies,

management practices and performance outcomes which may be specific to an industry (e.g., Ginsberg & Venkatraman, 1985; Hambrick, 1980; Harrigan, 1983). However, a multi-industry sample was necessary in order to test the hypothesis concerning the moderating impact of environmental uncertainty. A multi-industry study was also considered an appropriate choice given the general nature of the variables to be examined. Although specific management practices may vary across industry settings, previous research concerning the evaluative criteria for leader trustworthiness indicates that the basic criteria tend to be stable across firms and industries (e.g., Kouzes & Posner, 1993a; Butler, 1991). In addition, the outcome measures utilized in this study were carefully selected to apply across industry settings.

Data Collection

The research design required collecting data from the CEO and members of the top management team from each firm. Response rates in strategic management research have become a major concern for researchers. As the primary strategists, busy CEOs and TMTs are bombarded with surveys asking for their insights. Requiring multiple respondents from each firm was considered a potential limitation on the actual firm response rate that could be anticipated. A pilot study was conducted in order to estimate the response rates that could be expected from CEOs and TMT members. The results of the pilot study determined the sampling procedure, sample size, and data collection methodology described in this section. A description of the pilot study is presented in Appendix A.

Sample

Based on the results of the pilot study, a quota random sampling procedure was utilized. Firms were drawn randomly in successive groups from those identified in Compact Disclosure's SEC

Database until an adequate test sample of at least fifty firms could be anticipated. This sampling strategy provided an adequate sampling which fit within the time and financial constraints of the study. A total of 168 firms received invitations to participate in the study.

Procedures

Both primary and secondary data were collected for the study. Data concerning industry classification (SIC code), company size, financial performance, and CEO tenure were collected from secondary sources including Compact Disclosure's SEC Database and company proxy statements. Industry financial performance data was collected from Dun & Bradstreet's *Industry Norms and Key Business Ratios*. The collection of primary data occurred in two phases. The CEOs of the firms in the sample were the targets of the first phase of data collection. The member of the top management team were the targets of the second phase.

Phase One

A letter of introduction was sent to the CEO of each of the 168 firms in the sample requesting the firm's participation in the study. The letter explained that participation would involve a ten-minute telephone interview with the CEO and completion of a brief questionnaire by four designated members of the top management team. An executive summary of the study's results was offered to participating executives. Phone follow-up to schedule interviews ranged from one to fifteen calls. Sixty-nine CEOs agreed to participate; seventy-one declined. Time constraints prevented complete follow-up with the remaining twenty-eight firms.

Utilizing a semi-structured interview format, CEOs were asked to identify their greatest organizational leadership challenge and personal strengths they believed enabled them to be effective leaders. In addition, CEOs were asked to describe the role of trust or trustworthiness in their leadership and to identify practices in which they engaged or endorsed within their companies that

they felt fostered trust in their leadership from those inside and/or outside the organization. Although the answers to these questions were not part of the data to be analyzed, they engaged the interest of the respondents and provided valuable insights. CEOs provided ratings on scales for environmental uncertainty and organizational performance. The CEOs were also asked to provide the contact information for the top executives from four functional areas: marketing, production/operations, finance, and human resources. These positions were selected in an attempt to prevent bias on the part of the CEO in TMT participants and because they represent diverse perspectives which are generally found in organizations fitting the sample criteria for the study. The structure of a few firms was not consistent with this request. For example, some firms were organized with selected functions decentralized under regional divisions. In these instances division heads were identified as top management team members. Occasionally, this resulted in the identification of more than four TMT members to be invited to participate in the study. The CEO letter and interview form are provided in Appendices B-1 and B-2, respectively.

Phase Two

A TMT questionnaire was mailed to the management team executives with an accompanying letter describing the study and indicating their CEO's acceptance of the invitation for their firm to participate in the study. Participating TMT executives were also offered an executive summary of the results of the study. A postage-paid business reply envelope was enclosed. Reminder postcards were mailed ten days following the initial questionnaire mailing. A second questionnaire was mailed to nonrespondents after three weeks. The TMT members provided responses to measures of CEO trustworthiness, CEO accomplishment, environmental uncertainty, and company performance. The initial TMT cover letter and questionnaire are provided in Appendices B-3 and B-4. Copies of the reminder postcard and second cover letter are presented in Appendices B-5 and B-6. An a-priori

criterion for inclusion in the test sample was that only those firms from which data was provided by the CEO and at least two members of the top management team would be included in the study.

Variables and Measures

The measures utilized in this study were either archival measures or established perceptual measures which had been used and reported in published studies. A summary of variables and measures is presented in Table 4.1.

Dependent Variables

CEO Accomplishment

The effectiveness of the strategic leader was measured using a modified response version of the perceptual scale of CEO accomplishment developed by Podsakoff, MacKensie, Moorman, & Fetter's (1990) as refined by Agle (1993) and used by Agle & Sonnefeld (1994). The CEO Accomplishment measure was comprised of six items. TMT members were asked to indicate the frequency with which each statement was true for the CEO of their firm. The response format was a five-point Likert-type scale with anchors ranging from *rarely* to *almost always*. The six items state that the CEO (1) has accomplished what he/she stated he/she wanted to accomplish so far; (2) has achieved his/her management objectives in the past year; (3) has been able to achieve his/her goals for the organization so far; (4) has been able to implement his/her stated strategy; (5) has not been able to overcome adversity affecting the organization; (6) has overcome obstacles in accomplishing his/her desires for the organization.

Agle and Sonnefeld (1994) reported a .888 standardized alpha measure of scale reliability and an intraclass correlation of .762 indicating interrater reliability. Consistency across TMT members provides

Table 4.1. Summary of Variables and Measures

Variable	Description of Measurement Strategy		
	Measure	Data Source	Variable Score
CEO Accomplishment Degree to which CEO has achieved his/her stated goals and objectives. (Agle & Sonnefeld, 1994)	Perceptual, 5-items, Likert response scale. Scale score equals sum of all item responses. Range: 5-25	TMT Members	Mean of scale scores of TMT respondents.
Organizational Performance Growth and profitability relative to competitors. (Agle & Sonnefeld, 1994)	Perceptual, 4 financial indicator items, Likert scale. Scale score equals sum of all item responses. Range: 4 - 20	CEO and TMT Members	Mean of scale scores of CEO and TMT respondents.
CEO Trustworthiness An attribution; the degree to which CEO satisifies the criteria for trust as a leader: Integrity, Vision Inspiration, Leader Competence. (Kouzes & Posner, 1987)	Perceptual, 18 behavioral items, 5-point Likert scale. Scale score equals sum of all item responses. Range: 18-90.	TMT Members	Mean of scale scores of TMT respondents.
Organization Size Number of Employees. (Hall, 1972; Pettigrew, 1992)	Archival, 1 item	Disclosure SEC Database	Number of employees
CEO Tenure Years in office as CEO with firm. (Slater, 1989)	Archival, 1 item	Proxy Statement	Number of years between the end of 1996 and date of CEO appointment
Environmental Uncertainty Degree of change and unpredictability in market-related and technological dimensions of external environment. (Miller & Droge, 1986)	Perceptual, 5-item Likert scale. Scale score equals sum of all item responses. Potential Range: 18 - 90	TMT Members and CEO	Mean of scale scores of CEO and TMT respondents.

a test of measurement validity and allows scale scores from each respondent to be combined to provide a leader accomplishment score for each CEO.

Organizational Performance

Organizational performance was measured using a four-item, perceptual comparative performance scale also developed by Podsakoff, MacKensie, Moorman, & Fetter's (1990), refined by Agle (1993) and used by Agle & Sonnefeld (1994). Perceptual measures of firm performance are recommended by Venkatraman and Ramanujam (1986, 1987). Respondents were asked to indicate on a five-point Likert response scale the degree to which their firm's performance on each of four financial performance indicators had been less than, equal to, or greater than that of their competitors' since their CEO took office. The scale anchors ranged from one to five, *much less* to *much greater*, with *about the same* in the center at three. The financial indicators were: (1) increase in sales, (2) increase in market share, (3) increase in earnings, and (4) return on investment. Agle and Sonnefeld (1994) report a .903 standardized alpha measure of scale reliability and an intraclass correlation of .887 indicating interrater reliability. Internal consistency of scale items was examined as a measure of scale reliability. In addition, the variability of responses across all firms was compared to the variability of the within-team responses for each firm. Low within-team response variability is generally accepted as an indication of inter-rater reliability and measurement validity. The average of each firm's TMT members' scale scores served as the measure for the organizational performance variable.

To test the objective validity of the measure, the correlation between each firm's performance score and its three-year average return on assets (ROA) (1995, 1994 and 1993) relative to its industry's average ROA averaged over the same three-year period was examined. The ROA data for each firm and each four-digit SIC represented in the sample was obtained from secondary sources.

Independent Variables

CEO Accomplishment

CEO accomplishment was tested as a predictor variable in the hypothesis concerning the relationship between leader accomplishment and organizational performance. The accomplishment measure described above was used in the analysis.

CEO Trustworthiness

Leader trustworthiness was defined as the degree to which a person satisfies the criteria for trust as a leader. A person is considered worthy of trust as a leader to the degree that he or she is perceived to be a person of integrity and possess the competencies required by the leadership context. As the literature reviewed in Chapter 2 indicates, to be judged a person of integrity, one must exhibit (1) honesty by demonstrating such characteristics as truthfulness, consistency between words and deeds, and congruency of actions over time; and (2) moral character by demonstrating fairness and concern for the welfare of others, benign intentions and the absence of actions that exploit the vulnerabilities of others. To be judged a person possessing the competencies to lead, one must demonstrate relevant knowledge, vision, and skills in decision making and in inspiring others.

Although the literature indicates that trust and trustworthiness are multiconditional and situational constructs (e.g., Butler & Cantrell, 1984; Gabarro, 1978; Jennings, 1971, Kouzes & Posner, 1993a), the measurement of trustworthiness is not well developed in the literature. Where trust is examined in the context of leadership, it is generally measured in terms of the degree to which respondents trust rather than the degree to which the leader satisfies criteria for obtaining trust. Leadership measures which actually measure leadership effects and do not tell us much about what leaders do to achieve such effects have received considerable criticism (e.g., Sashkin & Rosenbach, 1993). *Trust in leader* measures do not tell what leaders do to gain trust. They, therefore, are not

very helpful in learning about *leadership* or pinpointing specific *causes* of trust or mistrust that may need attention in a given relationship or organization (Butler, 1991).

At the time of the study, only two published criterion-based measures were identified. The first was developed by John Butler (1991) and the second by James Kouzes and Barry Posner (1987; 1993a). Butler's instrument, the *Conditions of Trust Inventory* (CTI) measures general trustworthiness, but not leader trustworthiness specifically. The items are worded to pertain to individuals in all types of relationships, although the content validity of the CTI was established from interviews with managers, previous studies of managerial trust and a review of the management literature (Butler, 1991). The scale consists of one four-item overall trust scale and ten four-item behaviorally-oriented scales representing ten conditions for trust: competence, consistency, fairness, integrity (honesty), loyalty, openness, promise fulfillment, receptivity, and availability. Butler (1991) reports a series of studies strongly supporting the construct validity, based on tests of convergent and discriminant validity, as well as the reliability and homogeneity of the ten scales within the conditions set.

Given the development methods used by Butler (1991), it is not surprising that several of the ten conditions measured by the CTI are conceptually similar to the trust conditions identified by theorists and researchers focusing more specifically on identifying criteria for leader trustworthiness in organizational settings (e.g., Gabarro, 1978; Kouzes & Posner, 1993a; Bennis, 1989; Badaracco & Ellsworth, 1989). For example, personal integrity as described by Badaracco & Ellsworth (1989) includes Butler's integrity, consistency and promise fulfillment conditions. Butler's fairness and loyalty conditions are consistent with Kouzes & Posner's (1993a) criteria of goodwill.

Unfortunately, the CTI has several drawbacks as a measure of leader trustworthiness. First, it lacks specificity to the context of leadership. Second, the majority of Butler's (1991) conditions appear to primarily relate to integrity and interpersonal communications behavior. Only one of the

ten scales measures perceived competence. Third, examination of the competence scale items reveals that the scale essentially asks to what extent a person does "things" or "performs tasks" in a competent manner. None of the items reflects specific competencies identified in the leader trustworthiness literature as essential for obtaining trust as a leader. Fourth, the length and response format of the instrument is prohibitive, especially in studies involving leadership at the upper echelon level. Therefore, Butler's instrument was not considered an appropriate measure for the purposes of this study.

The alternative, Kouzes and Posner's (1993a) *leader credibility* measure, was considered more appropriate than Butler's instrument for several reasons: (1) the credibility construct, as operationalized by the authors, parallels leader trustworthiness as conceptualized in this study; (2) the development methodology was equally sound and had focused specifically on leadership in organizational settings; and (3) the instrument consists of only 18 items. Kouzes and Posner (1993a) describe three underlying dimensions of the credibility measure: trustworthiness, competence, and dynamism. The six items comprising the trustworthiness dimension are consistent with the integrity concept in tapping behavior-based perceptions of honesty, reliability, fairness and goodwill . The six competence items reflect the target person's behavior related to business knowledge and decision making skills. The third dimension measuring dynamism consists of six items reflecting the degree to which another is inspiring, enthusiastic, and engaging. Kouzes and Posner (1993a) report a series of studies indicating strong internal and test-retest reliability for the three subscales. They report alpha coefficients of .92 and .93 for each of the trustworthiness and competence scales and coefficients of .86 and .88 for the dynamism scale. The test-retest correlations for the three scales ranged from .83 to .90 indicating the stability of the measures.

However, the credibility instrument fails to include behavior reflecting an important aspect of strategic leadership. A primary competency expected of strategic leaders is the ability to envision a

future which provides direction and an overall sense of purpose for the organization (Hambrick, 1989; Hosmer, 1982; Hunt, 1991). Given that trust is considered to be situation and role specific (Deutsch, 1973; Stack, 1978; Whitney, 1993) and the specific leadership context of interest is strategic leadership, visionary-related behavior was considered an essential criterion for the measurement of leader trustworthiness for this study.

In an earlier publication, Kouzes and Posner (1987) report the rigorous development and testing of a related instrument, *The Leadership Practices Inventory*, which contains a six-item subscale that combines the inspiration aspects of the *dynamism* scale described above with visionary-related behaviors. This scale, entitled *inspiring a shared vision*, reflects behaviors related to communicating a vision for the future and encouraging others to accept it as their own. The authors report strong measurement reliability reflected by internal reliability coefficients of .89 and .85 and a test-retest correlation of .94.

Therefore, an 18-item instrument was constructed to measure leader trustworthiness by combining the three 6-item scales developed by Kouzes and Posner (1987; 1993a) to measure trustworthiness, competence, and vision inspiration. The TMT members were selected as the respondents for this measure because of their access to and familiarity with the CEO. Subordinate ratings of trustworthiness are consistent with the nature of trustworthiness as an attribution based on perceptions and evaluation of a target person's reputation and behavior. The measurement of "follower" perceptions also addresses the relational aspects of leadership.

Consistent with Kouzes and Posner's (1987) design of the Leadership Practices Inventory, TMT members were asked to indicate the frequency with which each behavioral statement was true of their CEO, based on their knowledge the CEO's decisions and actions. The response format was a five-point Likert scale with anchors ranging from Rarely (1) to Almost Always (5). Consistency across TMT members of the same firm provides a test of measurement validity and allows the total

score of the respondents to be averaged to provide a trustworthiness score for each CEO. The TMT responses from each firm were compared for variability and the results are reported in the following chapter.

Organizational Size

The size of an organization may be measured in terms of assets or employees. Generally, in studies concerning organizational behavior or structure, size is measured as the number of employees (e.g., Child, 1975; Hall, 1972; Hall, Haas & Johnson, 1967; Miller, Droge, & Toulouse, 1988). Given that the theoretical arguments supporting the hypothesis concerning the moderating effects of size are based on structural characteristics and behavioral outcomes, the number of employees was considered the appropriate measure for organizational size in this study. The number employees reported in SEC documents for 1995 was obtained from the Compact Disclosure database.

CEO Tenure

CEO tenure was measured as the number of years between the end of 1995 and the date the CEO was appointed to office. The CEO appointment date was obtained from company proxy statements.

Environmental Uncertainty

Consistent with the theoretical arguments presented, an uncertain environment is a changing and unpredictable environment (Miller and Shamsie, 1996). In selecting a measure of uncertainty, consideration was given to the validity or adequacy of a prospective measure in capturing the conceptual definition as well its measurement reliability. Recent critiques of the measurement of environmental variables highlight both conceptual and methodological diversity in previous research (Boyd, Dess & Rasheed, 1993; Milliken, 1987). Two fundamentally different approaches have traditionally been utilized in the measurement of environmental uncertainty. *Objective measures* typically rely on archival sources and include indicators such as growth in industry sales while

perceptual measures are comprised of subjective judgements of the environment by organizational members or key informants such as industry experts. Unfortunately, research has consistently failed to show substantial correlations between the two types of measures (Boyd, Dess, & Rasheed, 1993; Milliken, 1987). This creates concerns related to the validity of existing measures and the descriptive and theoretical generalizability of research findings based on these measures.

Ultimately, the researcher must make a judgement as to the appropriateness of any measure for tapping the construct of interest for a given research context. In this study the level of analysis is the firm and, therefore, it is the firm's environment that is of primary interest. Boyd and his associates (1993) stress that while industry-based archival measures provide the broadest scope of analysis, they are limited by their inability to account for intraindustry variation. They suggest that combining data from several firms to create an industry-level index such as sales volatility (Snyder & Glueck, 1982; Tosi, Aldag, & Storey, 1973) may be misleading due to basic issues of industry definition or the heterogeneity of firms. They offer the following example concerning the use of aggregated data based on SIC codes:

> For example, the paint and allied products industry (SIC 2851) consists primarily of trade sales and industry products establishments. Traditionally, the industrial products segment has enjoyed substantially higher growth and profit rates than trade sales. Therefore, when data for both industry segments are combined in a measure of the 4-digit SIC, the resulting index will not accurately depict either industry segment (p. 206).

Therefore, as Scherer (1980) observed, these measures "are sometimes too broad relative to the economist's ideal industry definition, and sometimes they are too narrow" (p. 60). Given the potential diversity of the sample within SIC classifications, the potential intraindustry differences in the level and nature of uncertainty in the respective competitive environments of the firms comprising the study sample, and the level of analysis of the study, industry-level archival measures of uncertainty were judged inappropriate for this research.

However, while perceptual measures of uncertainty do not suffer from the problems associated with aggregation across firms in an industry, their use does raise concerns about theoretical generalizability, reliability and validity, and sources of uncertainty (Boyd, Dess & Rasheed, 1993). With consideration of these concerns, environmental uncertainty will be measured using a modified form of Miller and Droge's (1986) five-item uncertainty measure which reflects the degree of change and unpredictability in market-related and technological dimensions of the environment. This measure is considered appropriate for several reasons. First, it concentrates the assessment of uncertainty on aspects of the environment which are central to the theoretical arguments supporting the uncertainty hypothesis and which can be assumed to be strategically relevant to most organizations. Previous literature suggests that product-market and technological characteristics are important industry domains for assessing the environment (e.g., Bourgeois, 1980; 1985; Tosi, Aldag & Storey, 1973). Similar measures have been utilized by Namiki (1989) and Zahra (1991). Second, the measure has been used in previous studies in which measures of internal consistency indicate acceptable scale reliability. Cronbach alphas of .74 and .81 were reported by Miller, Droge, and Toulouse (1988) and Miller (1988), respectively. In addition, the measure was attractive because it consists of only a small number of items as opposed to Miles & Snow's (1978) measure which has been shown to be quite reliable (Buchko, 1994; Hitt, Ireland, & Palia, 1982), but consists of 25 items.

As revised, the response format was a seven-point Likert-type agreement scale. TMT members and the CEO were asked to indicate the degree to which they agreed or disagreed with each of five items describing uncertain conditions. Responses were examined for interrater reliability to determine if sufficient agreement among respondents from the same firm would allow the summed responses to be averaged to obtain a measure of environmental uncertainty for each firm.

Data Analysis

Descriptive and diagnostic procedures were employed to ensure the appropriateness of the sample, perceptual measures, and satisfaction of the conventional assumptions necessary for testing the hypothesis using regression techniques.

To test the universal model, Hypotheses 1a, 1b, and 1c were tested using simple regression. See Table 4.2. In each case a single independent variable was regressed on a single dependent variable. For each hypothesis, the significance tests for the model and the beta coefficient of the independent variable indicated whether the null hypothesis of no relationship could be rejected. The amount of variance in the dependent variable explained by the independent variable in each regression was reflected by the R^2 for the model.

To test the contingency hypotheses associated with the resource-based model, hierarchical moderated regression analysis was used to examine the moderating effects of organizational size, CEO tenure, and environmental uncertainty expressed in Hypotheses 2, 3 and 4 respectively. The

Table 4.2. Universal Hypotheses and Regression Models

Hypotheses	Regression Model	Test Statistics
Hypothesis 1a: CEO leader trustworthiness will be positively related to CEO accomplishment.	$Y = a + bX1$ Y = CEO Accomplishment X1 = CEO Trustworthiness	Model and beta estimate significance and R^2
Hypothesis 1b: CEO accomplishment will be positively related to organizational performance.	$Y = a + bX2$ Y = Organizational Performance X2 = CEO Accomplishment	Model and beta estimate significance and R^2
Hypothesis 1c: CEO leader trustworthiness will be positively to organizational performance.	$Y = a + bX1$ Y = Organizational Performance X1 = CEO Trustworthiness	Model and beta estimate significance and R^2

procedures are outlined in Table 4.3. The testing of each hypothesis involved a two-step process. The first step required the specification of a restricted model which regressed CEO trustworthiness and the particular variable of interest on the dependent variable, organizational performance. In hierarchial regression, the significance tests of the restricted model and the beta coefficients for the independent variables indicate main effects before the addition of the moderating terms. For each restricted model, the level of adjusted R^2 was noted for comparison with the adjusted R^2 for the full model specified in step two.

In step two, the full model for each hypothesis included the independent variables specified in the restricted model plus the interaction term to be tested. The significance of the overall model and beta coefficient of the interaction term were employed as the appropriate test statistics for evaluating the moderating effect of the variable of interest (Schoonhoven, 1981; Wise, Peters, & O'Connor, 1984). For each hypothesis, the incremental change in adjusted R^2 by the addition of the interaction term to the restricted model indicates the improved explanatory power resulting from the moderating effect of the variable under investigation. When the coefficient of an interaction term is significant in the full model, the significance of the coefficient of the trustworthiness variable in the same equation indicates the advantage associated with leader trustworthiness that is not dependent upon the interaction under investigation.

Summary

To test the hypotheses developed in Chapter 3, an empirical quantitative study was conducted from a multi-industry random sample of non-diversified public business organizations headquartered in a seven-state region in the southeastern portion of the United States. Primary data for perceptual measures was collected through telephone interviews with the CEOs and questionnaires mailed to

Table 4.3. Resource-based Contingency Hypotheses and Regression Models

Hypotheses	Regression Model	Test Statistics
Hypothesis 2: As organizational size decreases, CEO trustworthiness will be more positively associated with organizational performance.	Restricted Model: $Y = a + b_1X1 + b_2X2$ Full Model: $Y = a + b_1X1 + b_2X2 + b_3X1*X2$	Significance tests for b_3 and change in R^2 resulting from the addition of the interaction term.
Hypothesis 3: As organizational tenure decreases, CEO trustworthiness will be more positively associated with organizational performance.	Restricted Model: $Y = a + b_1X1 + b_2X3$ Full Model: $Y = a + b_1X1 + b_2X3 + b_3X1*X3$	Significance tests for b_3 and the change in R^2 resulting from the addition of the interaction term.
Hypothesis 4: As environmental uncertainty increases, CEO trustworthiness will be more positively associated with organizational performance.	Restricted Model: $Y = a + b_1X1 + b_2X4$ Full Model: $Y = a + b_1X1 + b_2X4 + b_3X1*X4$	Significance tests for b_3 and the change in R^2 resulting from the addition of the interaction term.

Where,
- Y: Organizational performance
- X1: CEO trustworthiness
- X2: Organizational size
- X3: CEO tenure
- X4: Environmental uncertainty

- X1*X2: CEO trustworthiness and organizational size interaction
- X1*X3: CEO trustworthiness and CEO tenure interaction
- X1*X4: CEO trustworthiness and environmental uncertainty interaction

TMT members of each firm. Secondary data was obtained through a variety of published archival sources. The data were examined according to accepted descriptive and diagnostic methods and the hypotheses were tested using simple and hierarchial moderated regression techniques. The results are described in Chapter 5 and discussed in Chapter 6.

CHAPTER 5

RESULTS

This chapter presents the results of the data collection processes and analyses outlined in the previous chapter. The chapter is divided into four major sections. The first section, highlights the characteristics of the sample providing the data, the psychometric properties of the measures, and descriptive statistics for the variables. Also, transformations required to correct for the non-normal distribution of variables are discussed. The second section presents the test results for the three hypotheses derived from the behavioral model describing universal performance benefits of strategic leader trustworthiness. The third section presents the test results for the three hypotheses derived from the resource-based contingency model concerning the moderating effects of organizational size, CEO tenure, and environmental uncertainty on the relationship between strategic leader trustworthiness and organizational performance. The final section summarizes the results.

Sample and Data Characteristics

Sample

Fifty-six of the 168 firms invited to participate in the study qualified for inclusion in the test sample by completing the CEO telephone interview and returning at least two completed TMT questionnaires. As described in the previous chapter, 69 CEOs committed to participate in the study and 71 declined. The most frequent reason given by CEOs for declining to participate was lack of time. Some indicated their firms were experiencing major restructuring and that the timing of data

collection was prohibitive. Time constraints prevented complete follow-up on the remaining 28 firms. As a result, the CEO response rate was 41 percent.

TMT questionnaires were mailed to 281 executives identified in the CEO interviews. Questionnaires were returned from 189 executives for an overall TMT response rate of 67 percent. Fifty-six of the 69 commitments for firm participation met the qualifications for inclusion in the test sample by returning multiple TMT questionnaires resulting in a commitment fulfillment rate of 81%. The number of TMT responses associated with the 56 firms was 174. On average, three TMT executives per firm completed and returned questionnaires. Overall, the organizational response rate was 33%. The firm response rates by state are presented in Table 5.1.

Table 5.2 highlights several characteristics of the qualifying firms demonstrating a wide range in asset and performance levels. The firms in the sample represented 45 industry groups at the 4-digit SIC level. The CEOs in the sample were male between the ages of 34 and 68 years. The average age was 51.8 years. The average tenure of the CEOs in the sample was 8.04 years.

To test for potential response bias, a comparison of non-responding firms with participating firms was conducted. A random sample of 56 firms was drawn from the firms that had not accepted the invitation to participate in the study. The non-responding group was then compared with the study group to determine if any systematic differences existed between the two groups in terms of size and performance. As shown in Table 5.3, there were no significant differences between the two groups in terms of total assets, number of employees, average return on investment, and sales growth. The number of industries represented by four-digit SIC codes in the nonrespondent group was 43. The average age of the CEOs in the nonresponding group was 53.

Table 5.1.
Firm Response Rates by State

Location by State	Invited	Qualified	Response Rate %
Florida	55	11	20.0
Georgia	44	14	31.8
Kentucky	6	3	50.0
North Carolina	15	4	26.7
South Carolina	5	1	20.0
Tennessee	22	15	68.2
Virginia	21	8	38.1
Total	168	56	33.3

Table 5.2.
Characteristics of Firms Participating in the Study
N = 56

Variable	Mean	Std Dev	Minimum	Maximum
Total Assets (millions)	685.5	2,105.0	7.5	13,358.5
Average ROA [a]	8.2	20.2	-24.0	141.5
Sales Growth [b]	27.6	51.5	-99.9	308.1

[a] Return on Assets averaged over three years (1995, 1994, 1993).
[b] Average sales growth rate over five years (1991-1995).

Table 5.3. Comparison of Participating and Nonresponding Firms

Characteristic	Participating Firms N=56		Nonresponding Firms N=56		TTest of Equal Group Means	
	N	Mean	N	Mean	T-statistic	p > |T|
Size						
Assets (millions)	55	685.5	56	663.7	.60	.95
Number of Employees	56	3548.5	54	5298.4	-1.10	.27
Performance						
Average ROA [a]	55	8.2	56	7.3	.29	.77
Sales Growth [b]	48	27.6	52	20.6	.89	.37
CEO Age (years)	56	52	55	53		
SICs Represented	56	45	56	43		

[a] Return on Assets averaged over three years (1993, 1994, and 1995).

[b] Average sales growth rate over five years (1991-1995).

Measures

The descriptive statistics for the four perceptual measures used in the study are presented in Table 5.4. The outcomes of the tests for the reliability of measurement using these instruments are provided in Table 5.5. The internal reliability of the measures based on the consistency of items in each scale was evaluated using the Cronbach alpha statistic. High internal reliability was indicated for three of the four measures: *CEO Trustworthiness* (.94), *Company Performance* (.89) and *CEO Accomplishment* (.87). The internal reliability for the *Environmental Uncertainty* measure, however, was below the conventionally acceptable level of .70. A Cronbach alpha of .59 called into question the usefulness of the measure for hypothesis testing.

Confirmatory factor analysis was conducted to assess the underlying structure of the uncertainty scale. Principal components analysis with varimax rotation confirmed the two factors described by Miller and Droge (1986) and confirmed in earlier research (Miller, 1988; Miller, Droge & Toulouse, 1988). With sufficient loading of three items on the first factor representing the degree of change and two on the second factor representing the degree of predictability, there was no justification for eliminating items from the scale.

To check for systematic functional response bias, subsequent analyses of the alpha coefficient were performed on a sequence of data subsets which excluded the respondents from one functional

Table 5.4.
Descriptive Statistics for Multi-item Measures

Measure	# Items	N	Mean	Std Dev.	Minimum	Maximum
Leader Trustworthiness	18	174	74.62	11.73	33	90
Competitive Performance	4	228	15.35	3.93	4	20
Leader Accomplishment	5	174	19.52	4.45	6	25
Environmental Uncertainty	5	230	19.59	5.08	6	33

Table 5.5.
Measurement Reliability Statistics

Measure	Internal Reliability	Inter-rater Reliability				
	Cronbach Alpha	Eta^2 Firms		Eta^2 Team	F	p-value
Trustworthiness	.9384	.65	>	.35	4.07	.0001
Competitive Performance	.8897	.70	>	.30	7.35	.0001
Accomplishment	.8692	.65	>	.35	4.04	.0001
Environmental Uncertainty	.5941	.45	<	.55	2.61	.0001

area at a time. No functional bias was detected. The alpha coefficients were relatively consistent across the data subsets.

Before creating firm-level variables using the perceptual measures, an assessment of inter-rater reliability (Rousseau, 1985) for each of the four measures was conducted. Using company affiliation as the independent variable, a nested analysis of variance model revealed significant between-firm variance ($p = .0001$) for all four of the measures. This suggests a substantial level of agreement among the respondents from each firm. However, given sufficiently large samples, differences of very small magnitude can be statistically significant whether or not they reflect differences that are of *practical* significance.

Tatsuoka (1988) suggests a measure that comes closer to reflecting the practical significance of observed differences between groups in analyses of variance, the correlation ratio defined as $eta^2_{between} = 1 - (SS_w / SS_t)$, where SS_w is the variance within groups and SS_t is the sum of the between-groups variance and the within-groups variance. Examinations of inter-rater reliability in this manner have been reported in recent studies (i.e., Amason, 1996; Florin, Giamartino, Kenney, & Wandersman, 1990). Within-group differences, alternatively, can be assessed using the $eta^2_{within} = 1 - (SS_b / SS_t)$ formula, where SS_b is the between-groups variance and SS_t is the sum of the between-

groups variance and the within-groups variance. Comparisons of between-firm and within-firm variations were performed using these eta-squared calculations.

As shown in Table 5.5, the eta^2 for between-firm differences was substantially greater than the eta^2 for within-firm differences for the measures of CEO Trustworthiness, Company Performance, and CEO Accomplishment. This indicated that there were greater differences between respondents of different firms than between respondents within the same firm on these three measures. Conversely, this indicated that two responses from within a firm tended to be more similar than two responses from different firms. Essentially, the value of eta^2 may be interpreted as the proportion of total variance in measure scores attributable to the independent variable of interest. Therefore, between-firm differences accounted for 65% of the variance in CEO Trustworthiness scores; 70% of the variance in Company Performance scores; and 65% of the variance in CEO Accomplishment scores. These test results suggested a substantial level of agreement within the management teams and, therefore, the average of the individual responses on each of the three measures was used as the firm-level variable.

However, the eta^2 statistics and F-test for the Environmental Uncertainty measure provided contradictory evidence concerning inter-rater reliability. The within-firm eta^2 exceeded the between-firms eta^2 indicating that the proportion of total variance due to within-team differences was greater than the proportion of variance due to between-firm differences. This suggested that, although the test for between-firm differences was statistically significant, the *practical* differences were smaller than the differences between members of the same organization. Therefore, the inter-rater reliability on the uncertainty measure was judged problematic and prohibitive to team averages serving as the firm-level variable score.

Upon careful consideration of the evaluations described above concerning the measurement of uncertainty, assessment of the environment by the CEOs appeared to be the best available measure.

From the strategic apex of the organization, the CEO has the broadest perspective of the organization and the most holistic view of environmental conditions. The CEOs' score on the uncertainty measure was significantly correlated with the average scale scores of their respective TMT members ($r = .41$, p-value $\leq .001$). This correlation may be interpreted as a partial representation of the validity of the CEOs evaluation of the environment. Achieving a more substantial correlation was not expected given the reliability coefficient for the scale and low within-firm inter-rater reliability. Therefore, unlike the other perceptual measures used in the study, the Environmental Uncertainty measure relied solely on the assessment of the CEO.

To examine the external validity of the Organizational Performance measure, the relationships between the firms' score and three archival measures of firm performance were assessed. The results are presented in Table 5.6. First, return on assets (ROA) data for the three years of 1995, 1994, and

Table 5.6.
Correlations Between Perceptual Measure of Organizational Performance and Archival Measures of Financial Performance [1].

Archival Measures / *Perceptual Measures*	Firm ROA[a] (n = 41)	Relative Average ROA[b] (n = 38)	Firm Average ROA-Industry Average Median ROA[c] (n = 28)
Organizational Performance [2]	.378*	.433**	.441*
Single ROI item [3]	.435**	.493**	.527**

[1] Levels of significance: ** $p < .01$ * $p < .05$.

[2] Each firm's score calculated as the average of the sums all respondents from within each firm.

[3] Single scale item: comparative return on investment.

[a] Calculated as the 3-year average of ROA for 1995, 1994, and 1993.

[b] Calculated as the ratio of each firm's 3-year average ROA divided by the mean of the industry average ROA for 1995, 1994, and 1993.

[c] Calculated as the difference between the firm's 3-year average ROA and the mean industry median ROA for 1995, 1994, and 1993.

1993 were averaged for each firm. Second, the ratio of the firm's average ROA to the average industry ROA over the same period was calculated to achieve an archival measure of firm performance relative to the respective average industry performance. Industry averages were obtained from Dun & Bradstreet's *Industry Norms and Key Business Ratios* (1993-1995). Third, the median ROA was obtained from Robert Morris Associates' *Annual Statement Studies* (1996) for each industry and averaged over the same three-year period. Each firm's ROA performance relative to the industry median was calculated by subtracting the average median from the firm's average ROA. Using a subset of the data which excluded firms with CEO tenure less than three years, correlation analyses were performed to test the strength of the relationships between these measures and the firm's performance score derived from the perceptual measure of organizational performance. Three of the four items in the measure ask for a comparison of growth rates and a single item asked respondents to compare their firm's ROI with the ROI of competitors. Correlations between this single item and the three archival archival measures were also examined. The results presented in Table 5.6 indicate significant correlations between the perceptual measurement of organizational performance and the archival financial measures. The magnitude of the correlations were considered to indicate satisfactory validity given that the full measure primarily focused on growth and the archival data lagged the perceptual measure by one year.

Variables

Descriptive statistics for the variables in the study are presented in Table 5.7. Preliminary examination of the distributions of the variables produced mixed results. Distribution normality is indicated by the skewness and kurtosis of the distribution, the size of the test statistic, W, for the hypothesis of normality and the probability estimate. As the test statistic approaches 1.0 and the

Table 5.7.
Descriptive Statistics for Variables in the Study
(N = 56)

Variable	Mean	Std Dev	Minimum	Maximum	Skewness	Kurtosis	Normality Test: W	p < W
Organizational Performance [a]	15.16	3.37	4.00	20.00	-0.79	0.74	.944	.0199
CEO Accomplishment [b]	19.24	3.68	9.50	24.75	-0.75	0.06	.935	.0068
CEO Trustworthiness [c]	74.07	8.73	54.00	88.33	-0.54	-0.51	.947	.0294
Environmental Uncertainty [d]	20.65	5.19	11.00	32.00	0.06	-0.67	.967	.2528
CEO Tenure [e]	8.04	6.99	.30	31.00	1.34	1.58	.867	.0001
Organizational Size [e]	3548.50	7292.48	98.00	48500.00	4.71	26.74	.491	.0001
CEO Tenure [f]	1.65	1.05	-1.10	3.43	-0.61	-0.12	.956	.0772
Organizational Size [f]	7.03	1.55	4.60	10.79	0.20	-.76	.954	.0660

[a] Average of TMT members and CEO response sums on four-item scale with item response range of 1-5.

[b] Average of TMT members sums on six-item scale with item response range of 1-5.

[c] Average of TMT members sums on 18-item scale with item response range of 1-5.

[d] CEO Response sum on five-item scale with item response range of 1-7.

[e] Archival measures not used in hypothesis testing. Tenure = number of years as CEO. Size = number of employees.

[f] Natural log transformation to correct for non-normal distribution. Transformation used in testing hypothesis.

skewness and kurtosis of the distribution approaches zero, the distribution approaches normality. The hypothesis of normality is rejected for p-values less than .01.

Tests for distribution normality indicated that *Organizational Performance*, *CEO Trustworthiness*, and *Environmental Uncertainty* were sufficiently normal. With test-statistic W and p-value levels of .945, .93, and .97 respectively and corresponding p-values > .01, the hypothesis of normality was not rejected. The sample distribution of *CEO Accomplishment* approached normality, but the hypothesis was rejected with W = .94 (p = .0068). The skew ness and kurtosis of the distribution were -.75 and .06 respectively. Attempts to improve the distribution with conventional transformations were unsuccessful. Given the robustness of regression analysis, skewness and kurtosis less than the absolute value of 1.0, normality test statistic of .94, and a p-value of almost .01, the distribution of *CEO Accomplishment* was judged adequate for hypothesis testing.

The distributions of the archival measures of CEO Tenure, which was the number of years from the time of appointment through the end of 1996, and Organizational Size, which was represented by the number of employees, were extremely non-normal. Natural log transformations of both reduced skewness and kurtosis substantially and achieved the normal distributions required by data analysis procedures. Therefore, for purposes of hypothesis testing, the log transformation of size and the log transformation of tenure were used. The descriptive statistics for all four measures are reported in Table 5.7. Subsequent references to the *CEO Tenure* and *Organizational Size* variables will refer to the log transformations described above.

The Pearson correlation coefficients representing the relationships among the variables are presented in the Intercorrelations Matrix in Table 5.8. One prominent feature of the data was the substantial negative correlation (r = -.495, p < .001) between *CEO Tenure* and *CEO Trustworthiness*. This suggests that the per ception of trustworthiness decreases as tenure increases. To a lesser extent, *CEO Tenure* was also negatively correlated (r = -.239, p < .10) with *CEO*

Table 5.8.
Intercorrelation Matrix [a]
(N = 56)

Variables	**Organizational Performance**	**CEO Accomplishment**	**CEO Trustworthiness**	**Organizational Size**	**CEO Tenure**
Leader Accomplishment	.646***				
CEO Trustworthiness	.318*	.683***			
Size [b]	-.077	-.090	-.016		
CEO Tenure [b]	.131	-.239†	-.497***	.159	
Environmental Uncertainty [c]	-.127	-.194	-.136	.027	.253†

[a] Levels of Significance reported for two-tailed tests: *** $p < .001$ ** $p < .01$ * $p < .05$ † $p < .10$.
[b] Log transformation.
[c] CEO response only.

Accomplishment suggesting that CEOs having the longest tenure were perceived as less effective in accomplishing their goals than CEOs with fewer years in office. Before the log transformation, the average number of years in office as CEO for the sample was just over eight years. Tenure ranged from just under four months to thirty-one years. Also, it is interesting to note that *CEO Tenure* was positively related to *Environmental Uncertainty* ($r = .253$, $p < .10$). The more experienced CEOs in the sample tended to head organizations operating in more uncertain environments.

Hypotheses Tests

As described in Chapter 4, regression analysis procedures were utilized to test hypotheses. Given the marginal distribution normality of several of the variables and knowing that small samples are particularly susceptible to the influence of non-normal distributions and outlying observations,

considerable attention was devoted to the analysis of residuals. Partial regression plots, Cook's distance measure, leverage measures, and plots of predicted values versus standardized residuals were examined for each regression. The residuals indicated that the relationships reported in this chapter were not unduly influenced by outliers represented in the sample. In addition, the residuals for each regression were normally distributed eliminating any concerns about the satisfaction of the normality assumptions required for regression analysis.

Given that the direction of relationships are stated in all hypotheses, one-tailed significance levels are reported. The stability of the regressions and the results of the residuals analyses were judged sufficient to allow inferences to be drawn from a .10 alpha level of significance appropriate for this sample of 56 firms.

Universal Model Hypotheses

The behaviorally-based universal model suggests that strategic leader trustworthiness enables strategic leaders to elicit and maintain the cooperation of important stakeholders such that their efforts are engaged in assisting the achievement of the firm's objectives and strategies. Therefore, the trustworthy leader is expected to be effective in achieving his or her goals and the organization is expected to achieve high levels of performance, regardless of contingencies. Regression analyses were performed to test the three hypotheses developed from this model.

Hypothesis 1a states that CEO trustworthiness will be positively associated with CEO accomplishment. Figure 5.1a presents the results from simple regression analysis conducted on the full sample (N = 56) to test this hypothesis. *CEO Trustworthiness* was positively related ($t = 6.87$, $p < .0001$) to, and explained almost 46% of the variance in, *CEO Accomplishment* ($F = 47.15$, $p < .001$). This finding strongly supports Hypothesis 1a and provides partial support for the universal model.

Hypothesis 1a: CEO trustworthiness will be positively associated with CEO accomplishment.

Regression Model: $Y = a + b_1X_1$

Model F	p-value	Adj R^2
47.15	.0001	.4563

Where, Y = Leader accomplishment
X_1 = CEO Trustworthiness

N = 56

	Parameter Estimate	Standard Error	T for Ho: Parameter=0	Prob > T
Intercept	-2.080	3.1251	-0.666	.2542
CEO Trustworthiness	.288	.0419	6.867	.0000

Figure 5.1a. Regression Results for Hypothesis 1a.

Hypothesis 1b states that CEO accomplishment will be positively associated with organizational performance. The results of the regression analysis performed to test this relationship are presented in Figure 5.1b. The data indicated a strong and significant relationship between *CEO Accomplishment* and *Organizational Performance* ($t = 6.22$, $p < .0001$). Furthermore, *CEO Accomplishment* explained almost 41% of the variance in of *Organizational Performance* ($R^2 = 0.407$, $F = 38.7$, $p < .001$). These results strongly support Hypothesis 1b and provide additional support for the universal model.

Hypothesis 1c concerned the direct effects of leader trustworthiness on organizational performance. To test this hypothesis predicting that CEO trustworthiness will be positively associated with organizational performance, regression analysis was performed. The results presented in Figure 5.1c support the hypothesis. The data indicated a positive relationship between *CEO Trustworthiness* and *Organizational Performance* ($t = 2.46$, $p < .01$). This suggests that as the perception of leader trustworthiness increases so does organizational performance.

Hypothesis 1b: CEO accomplishment will be positively associated with organizational performance.

Regression Model: $Y = a + b_1X_1$

Model F	p-value	Adj R^2
38.7	.0001	.4067

Where, Y = Organizational Performance
X_1 = CEO Accomplishment

N = 56	Parameter Estimate	Standard Error	T for Ho: Parameter=0	Prob > T
Intercept	3.772	1.863	2.024	.0240
CEO Trustworthiness	.592	.095	6.221	.0000

Figure 5.1b. Regression Results for Hypothesis 1b.

Hypothesis 1c: CEO trustworthiness will be positively associated with organizational performance.

Regression Model: $Y = a + b_1X_1$

Model F	p-value	Adj R^2
6.07	.0169	.0844

Where, Y = Organizational Performance
X_1 = CEO Trustworthiness

N = 56	Parameter Estimate	Standard Error	T for Ho: Parameter=0	Prob > T
Intercept	6.066	3.7165	2.632	.0543
CEO Trustworthiness	.123	.0498	2.464	.0085

Figure 5.1c. Regression Results for Hypothesis 1c.

Contingency Model Hypotheses

As explained in Chapter 3, the resource-based contingency model argues that the relationship between CEO trustworthiness and organizational performance will be moderated by aspects of the internal and external environment. Hierarchial moderated regression analysis was conducted to test each of the three hypotheses developed to partially test this model.

Hypothesis 2 states that CEO trustworthiness and organizational performance will be more positively associated as organizational size decreases. In the first step of the analysis, *CEO Trustworthiness* and *Organizational Size* were regressed on the dependent variable, *Organizational Performance*. As shown in Figure 5.2a, the model was significant ($F = 3.15$, $p < .10$). Only the parameter estimate for trustworthiness was statistically significant ($t = 2.44$, $p < .01$). An adjusted R^2 of .0725 indicates that the model explained 7.25 percent of the variance in *Organizational Performance*.

In step two of the analysis, the interaction term was added to test the moderating effects of organizational size on the relationship between CEO trustworthiness and organizational performance. The interaction term was calculated using centered data to minimize collinearity among the predictor variables. The results given in Figure 5.2a indicate the significance of the full model ($F = 3.26$, $p < .05$). The R^2 for the full model was .1097. Parameter estimate t-tests indicate significant moderating effects of *Organizational Size* ($t = 1.79$, $p < .05$) and main effects for *CEO Trustworthiness* ($t = 2.43$, $p < .01$).

These results, however, do not support Hypothesis 2. According to the data, the moderating effect of organizational size *positively* affects the relationship between CEO trustworthiness and organizational performance. In other words, the data suggests that, as organizational size *increases*, the positive relationship between trustworthiness and organizational performance becomes stronger. Figure 5.2b illustrates this moderating effect.

Hypothesis 2: CEO Trustworthiness and organizational performance will be more positively associated as organizational size decreases.

Test: Hierarchial Moderated Regression Analysis

N = 56

Where, Y = Company Performance
X_1 = CEO Trustworthiness
X_2 = Organizational Size [a]
$X_3 = X_1 * X_2$ [b]

Step One

Restricted Model: $Y = a + b_1X_1 + b_2X_2$

Model F	p-value	Adj R^2
3.151	.0509	.0725

	Parameter Estimate	Standard Error	T for Ho: Parameter=0	Prob > T
Intercept	7.1970	4.261	1.689	.0486
CEO Trustworthiness	.1224	0.050	2.439	.0091
Organizational Size [a]	-.1564	0.282	-0.554	.2910

Step Two

Full Model: $Y = a + b_1X_1 + b_2X_2 + b_3X_3$

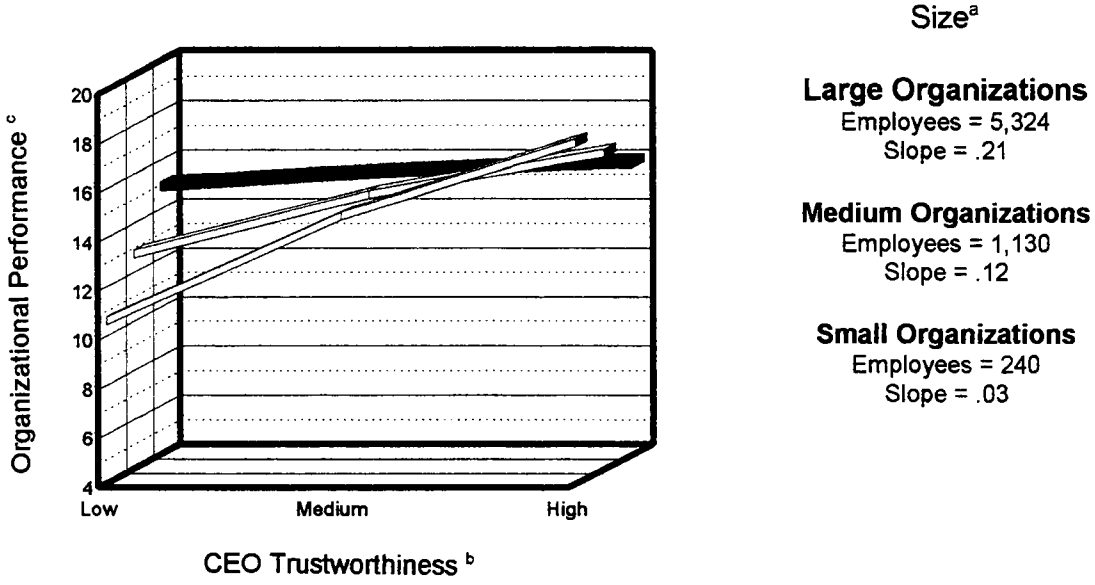
Model F	p-value	Adj R^2
3.258	.0288	.1097

	Parameter Estimate	Standard Error	T for Ho: Parameter=0	Prob > T
Intercept	7.6358	4.183	1.826	.0367
CEO Trustworthiness	.1197	0.049	2.433	.0093
Organizational Size [a]	-.1885	0.277	-0.680	.2497
Trustworthiness x Size [b]	.0597	0.033	1.792	.0395

[a] Natural log transformation to correct for nonnormal distribution of Organizational Size.

[b] Interaction calculated using centered data for both CEO Trustworthiness and Organizational Size.

Figure 5.2a. Regression Results for Hypothesis 2.



[a] Large and small size in number of employees corresponds to the analog of the mean of log(size) ± 1 standard deviation, respectively. Medium size equals the analog of the sample mean of log(size).

[b] Low, Medium and High CEO Trustworthiness represent the minimum, mean, and maximum values in the sample.

[c] The 95% confidence interval for the mean of organizational performance (15.15), is 14.26 to 16.06.

Figure 5.2b. Trustworthiness-Performance Relationship in Small, Medium, and Large Organizations.

For the graph in Figure 5.2b, low, medium and high levels of trustworthiness correspond to the full range of the data with the medium level equal to the sample mean. The 95% confidence interval for the sample mean of *Organizational Performance* is 14.26 to 10.06. The large and small organizations specified in the graph correspond to one standard deviation above and below the mean of *Organizational Size* (i.e., the mean of the natural log of the number of employees in each firm). Note that for small organizations in this study, relative competitive performance appears to be essentially average, regardless of the level of CEO trustworthiness. However, the graph clearly shows that the relationship between CEO trustworthiness and competitive performance is much greater in the large organizations (slope = .21). Competitive performance tends to improve as

trustworthiness increases. It is interesting to note the change in the competitive performance across the levels of CEO trustworthiness. Above average trustworthiness is associated with above average competitive performance. However, as trustworthiness falls below the mean, competitive performance falls below the average more dramatically than it rises at levels of trustworthiness above the mean.

Hypothesis 3 states that CEO trustworthiness and organizational performance will be more positively associated as CEO tenure increases. The results of the test of Hypothesis 3 are reported in Figure 5.3a. The procedure described for testing Hypothesis 2 was applied in testing Hypothesis 3. In the restricted model in Step One, *CEO Trustworthiness* and *CEO Tenure* were regressed on *Organizational Performance*. The model was significant ($F = 7.13$, $p < .01$) and explained 18.22 percent of the variation in *Organizational Performance* for the sample tested. The data indicated significant parameter estimates for *CEO Trustworthiness* ($t = 3.62$, $p < .001$) and *CEO Tenure* ($t = 2.73$, $p < .01$).

In Step Two, the interaction term was entered into the model to test the moderating effects of CEO Tenure. The model was significant ($F = 7.12$, $p < .001$) in predicting *Organizational Performance*. Significant parameter estimates were indicated for the interaction term ($t = 2.41$, $p < .01$), *CEO Trustworthiness* ($t = 2.48$, $p < .01$) and *CEO Tenure* ($t = 1.83$, $p < .05$). The addition of the interaction term in Step Two increased the adjusted R^2 from .18 to .25 indicating that the moderating effects of *CEO Tenure* explained an additional 7 percent of the variance in *Performance*. As in the test of Hypothesis 2, *CEO Trustworthiness* continued to show main effects ($t = 2.48$, $p < .01$) in the full model.

These results support Hypothesis 3 and are illustrated in the graph shown in Figure 5.3b. The graph represents the relationships between CEO trustworthiness and organizational performance under three separate tenure conditions relevant to the sample data. Medium tenure represents the

Hypothesis 3: CEO Trustworthiness and organizational performance will be more positively associated as CEO Tenure increases.

Test: Hierarchial Moderated Regression Analysis

N = 56

Where, Y = Company Performance
X_1 = CEO Trustworthiness
X_2 = CEO Tenure [a]
X_3 = $X_1 * X_2$ [b]

Step One

Restricted Model: $Y = a + b_1X_1 + b_2X_2$

Model F	p-value	Adj R^2
7.128	.0018	.1822

	Parameter Estimate	Standard Error	T for Ho: Parameter=0	Prob > T
Intercept	-1.4147	4.454	-0.318	.3760
CEO Trustworthiness	0.1964	0.054	3.620	.0004
CEO Tenure [a]	0.1229	0.450	2.731	.0043

Step Two

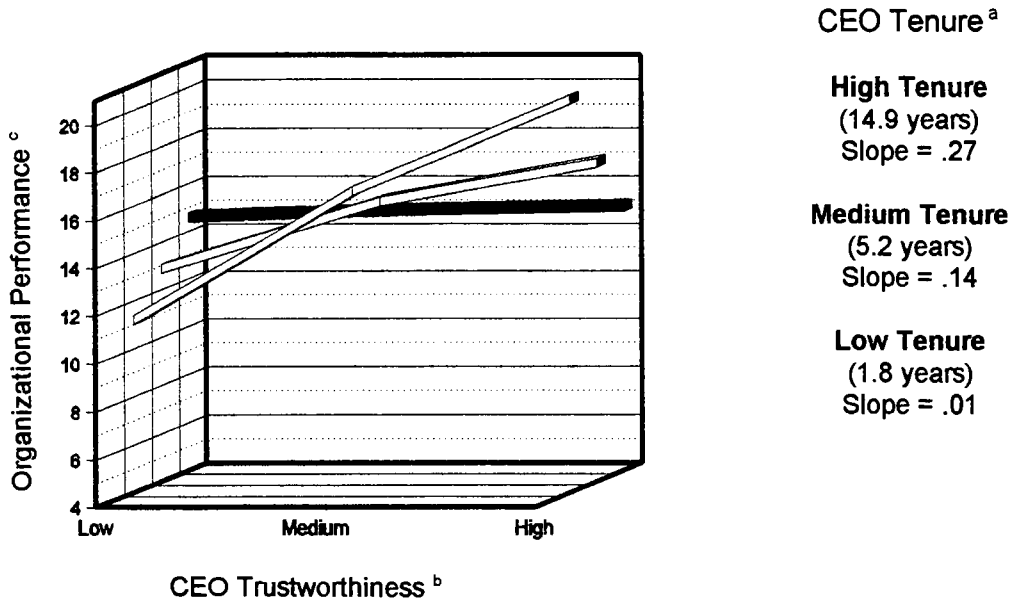
Full Model: $Y = a + b_1X_1 + b_2X_2 + b_3X_3$

Model F	p-value	Adj R^2
7.123	.0004	.2504

	Parameter Estimate	Standard Error	T for Ho: Parameter=0	Prob > T
Intercept	3.8592	4.792	0.805	.2122
CEO Trustworthiness	.1413	0.057	2.489	.0081
CEO Tenure [a]	.8421	0.460	1.830	.0365
Trustworthiness x Tenure [b]	.1223	0.509	2.412	.0097

[a] Natural log transformation to correct for nonnormal distribution of CEO Tenure.
[b] Interaction calculated using centered data for both CEO Trustworthiness and CEO Tenure.

Figure 5.3a. Regression Results for Hypothesis 3.



[a] Medium Tenure in years corresponds to the analog of 1.65, the mean of log(tenure). High and Low Tenure correspond to the analog of the mean of log(tenure) ± 1 standard deviation, respectively.

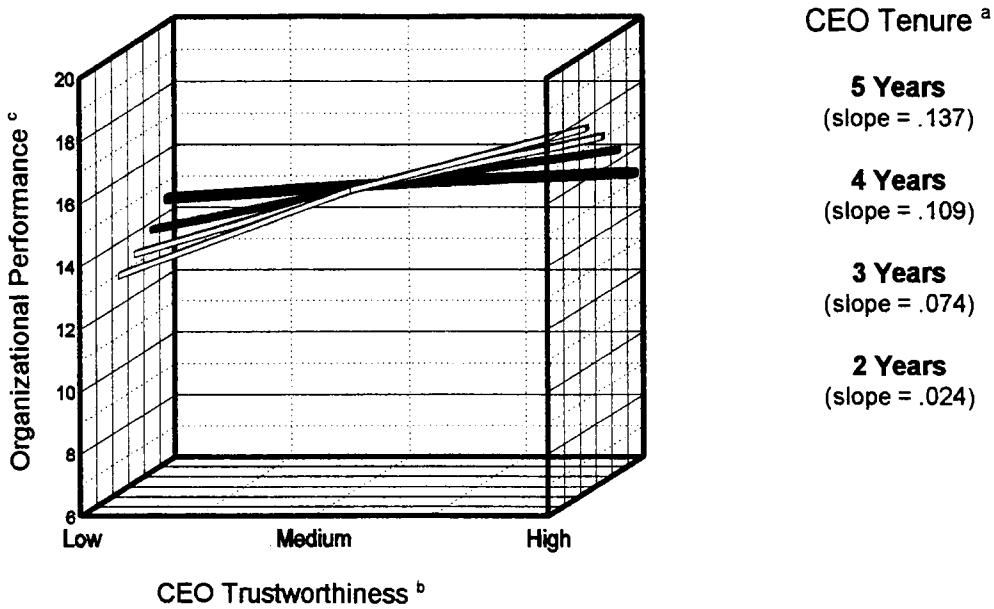
[b] Low, Medium and High CEO Trustworthiness represents the minimum, mean, and maximum values in the sample.

[c] The 95% confidence interval for the mean of organizational performance (15.16) is 14.26 to 16.06.

Figure 5.3b. Trustworthiness-Performance Relationships Under Conditions of High, Medium and Low CEO Tenure.

sample mean of the natural logarithm of the years in office. The high and low tenure conditions correspond to the mean ± one standard deviation. As the slopes of the lines indicate, the strength of the relationship between CEO trustworthiness and competitive performance tends to increase as tenure increases. At less than two years, the relationship is essentially zero and competitive performance is about average. By the fifth year of CEO tenure, the low and high perceived trustworthiness levels are associated with below and above average performance, respectively.

The graph in Figure 5.3c shows the relationship between trustworthiness and organizational performance for CEO tenure of two through five years. As the slopes indicate, prior to the third year in office, there is essentially no relationship between CEO trustworthiness and organizational perfor-

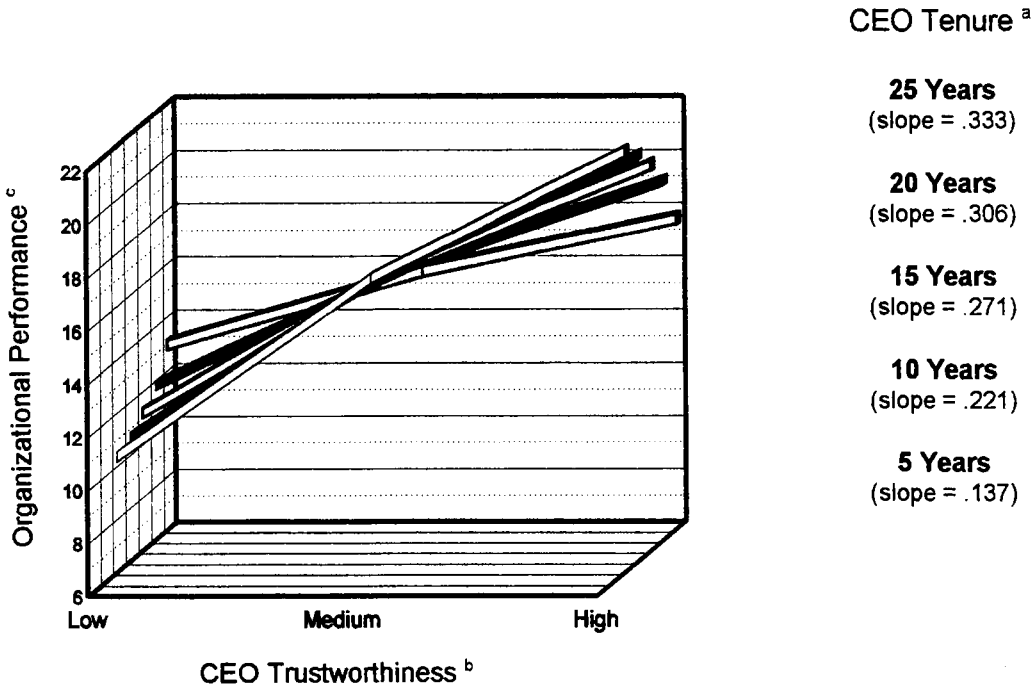


[a] Slope calculations based on the log transformations of the years specified.
[b] Low, Medium and High CEO Trustworthiness represents the minimum, mean, and maximum values in the sample.
[c] The 95% confidence interval for the mean of organizational performance (15.16) is 14.26 to 16.06.

Figure 5.3c. The CEO Trustworthiness-Organizational Performance Relationship During the Early Tenure Years.

mance. However, it appears that during the third year the perception of trustworthiness becomes pivotal. By the end of the third year of CEO tenure, the data in this sample suggest that firms with CEOs perceived to be highly trustworthy leaders tend to begin showing better than average competitive performance while firms with low trustworthy CEOs begin to show below average competitive performance.

Figure 5.3d shows the CEO Trustworthiness-Organizational Performance relationship for five to twenty-five years in five year increments. The graph illustrates the increasing importance of trustworthy leadership over time for the firms in the study. As the strength of the trustworthiness–performance relationship continues to increase with CEO Tenure, firms headed by CEOs perceived



[a] Slope calculations based on log transformations of the respective years of tenure.
[b] Low, Medium and High CEO Trustworthiness represent the sample minimum, mean, and maximum values, respectively.
[c] The 95% confidence interval for the mean of organizational performance (15.16) is 14.26 to 16.06.

Figure 5.3d. The Performance Implications of the Retention of Low and High Trustworthy CEOs.

to be highly trustworthy leaders tend to show increasingly superior competitive performance. The data also suggest substantial competitive performance risks associated with retaining a CEO perceived as below-the-mean in leader trustworthiness. Over time, organizations headed by low trustworthy CEOs appear to increasingly exhibit performance well below that of their competitors.

Hypothesis 4 addresses the moderating effects of environmental uncertainty. This hypothesis states that CEO trustworthiness and organizational performance will be more positively associated as environmental uncertainty increases. Hierarchial moderated regression was once again employed to test for moderating effects. The results are presented in Figure 5.4a. The restricted model in Step

Hypothesis 4: CEO Trustworthiness and organizational performance will be more positively associated as environmental uncertainty increases.

Test: Hierarchial Moderated Regression Analysis

N = 56

Where, Y = Company Performance
X_1 = CEO Trustworthiness
X_2 = Environmental Uncertainty
$X_3 = X_1 * X_2$ [a]

Step One

Restricted Model: $Y = a + b_1X_1 + b_2X_2$

Model F	p-value	Adj R^2
3.214	.0481	.0745

	Parameter Estimate	Standard Error	T for Ho: Parameter=0	Prob > T
Intercept	7.5340	4.368	1.725	.0452
CEO Trustworthiness	0.1184	0.051	2.340	.0116
Environmental Uncertainty	- 0.0552	0.085	-0.649	.2545

Step Two

Full Model: $Y = a + b_1X_1 + b_2X_2 + b_3X_3$

Model F	p-value	Adj R^2
4.671	.0058	.1668

	Parameter Estimate	Standard Error	T for Ho: Parameter=0	Prob > T
Intercept	7.2580	4.145	1.751	.0430
CEO Trustworthiness	.1105	0.048	2.299	.0128
Environmental Uncertainty	- 0.0069	0.083	-0.083	.4671
Trustworthiness x Uncertainty [a]	.0234	0.009	2.622	.0058

[a] Interaction calculated using centered data for both CEO Trustworthiness and Environmental Uncertainty.

Figure 5.4a. Regression Results for Hypothesis 4.

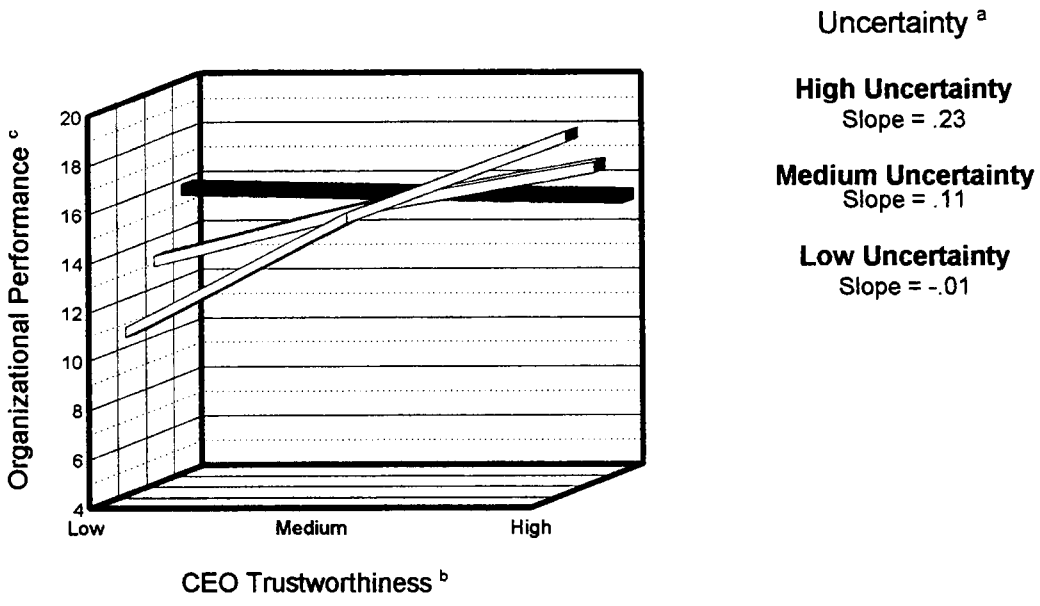
One indicated that the model was statistically significant in predicting *Organizational Performance* ($F = 3.21$, $p < .05$). The tests of parameter estimates indicated that *CEO Trustworthiness* alone was statistically significant ($t = 0.34$, $p < .05$).

When the interaction term was added in Step Two to test the moderating effects of environmental uncertainty, both the significance level of the model and the value of R^2 improved ($F = 4.67$, $p = .01$). The improvement in the explanatory power of the model ($\Delta R^2 = .0925$) along with the significance of the positive parameter estimate for the interaction term ($t = 2.62$, $p < .01$) provide evidence supporting the hypothesis of the positive moderating effects of environmental uncertainty on the relationship between CEO trustworthiness and organizational performance. As uncertainty increases, trustworthiness appears to become more strongly associated with organizational performance.

The graph in Figure 5.4b illustrates the trustworthiness-performance relationship revealed by the data under low and high uncertainty conditions. High and low uncertainty shown in the graph correspond respectively to the level of uncertainty at ± 1 standard deviation from the mean of environmental uncertainty. The graph reveals no particular performance advantage related to leader trustworthiness for firms operating in relatively stable environments. However, under conditions of high uncertainty, firms with trustworthy leaders tend to be superior performers. The firms with leaders perceived to be below the sample mean for leader trustworthiness appear to be at a distinct competitive disadvantage.

Summary of Results

The results of the hypotheses tests are summarized in Table 5.9. Five of the six hypotheses proposed in the study were supported by the data analyses performed on the test sample of 56 firms. Further discussion of these results is presented in Chapter 6.



[a] Low and High Uncertainty correspond with the sample mean of uncertainty ± 1 standard deviation. Medium Uncertainty corresponds with the sample mean for uncertainty.

[b] Low, Medium and High CEO Trustworthiness represents the minimum, mean, and maximum values in the sample.

[c] The 95% confidence interval for the mean of organizational performance (15.16) is 14.26 to 16.06.

Figure 5.4b. The CEO Trustworthiness-Organizational Performance Relationship Under Increasing Levels of Environmental Uncertainty.

Table 5.9. Summary of Hypotheses Tests Results

MODEL	HYPOTHESIS		RESULTS
Universal	**Hypothesis 1a**:	CEO trustworthiness will be positively associated with CEO accomplishment.	**Supported** F = 47.15*** Adj R^2 = 0.4563 beta = 0.29***
Universal	**Hypothesis 1b**:	CEO accomplishment will be positively associated with organizational performance.	**Supported** F = 38.7*** Adj R^2 = 0.4067 beta = 0.59***
Universal	**Hypothesis 1c**:	CEO trustworthiness will be positively associated with organizational performance.	**Supported** F = 6.07* Adj R^2 = 0.0844 beta = 0.123**
Contingency	**Hypothesis 2**:	CEO trustworthiness and organizational performance will be more positively associated as organizational size decreases.	**Not Supported** F = 3.258* Adj R^2_{Full} = 0.11 $beta_{X1X2}$ = 0.06* ΔR^2 = 0.037
Contingency	**Hypothesis 3**:	CEO trustworthiness and organizational performance will be more positively associated as CEO tenure increases.	**Supported** F = 7.123** Adj R^2_{Full} = 0.25 $beta_{X1X2}$ = 0.12** ΔR^2 = 0.0682
Contingency	**Hypothesis 4**:	CEO trustworthiness and organizational performance will be more positively associated as environmental uncertainty increases.	**Supported** F = 4.671** Adj R^2_{Full} = 0.167 $beta_{X1X2}$ = 0.023** ΔR^2 = 0.0923

*** $p < .001$
** $p < .01$
* $p < .05$

CHAPTER 6

DISCUSSION AND IMPLICATIONS

The purpose of this study was to address the general question of whether or not strategic leadership can be a source of competitive advantage. In addressing this question, a resource-based model of leader trustworthiness as a determinant of organizational performance was examined along with a more traditional behavioral model of leader trustworthiness as a universal performance advantage. Hypotheses for both models were developed and tested to examine the validity of each model. Does strategic leader trustworthiness serve as a universal source of competitive advantage or is the competitive value of trustworthy leadership context specific?

In this chapter, the major findings are discussed along with the limitations of the study. These sections are followed by a discussion of the theoretical and practical implications as well as suggestions for future research.

Universal Advantage

Support for Hypotheses 1a, 1b, and 1c offer encouraging evidence of the validity of the behaviorally-based model of leader trustworthiness as universally beneficial in the context of strategic leadership. The data indicated a strong positive relationship between CEO trustworthiness and CEO accomplishment suggesting that leaders who are perceived as worthy of trust as leaders are more effective in achieving goals and objectives they have set for the organization. The proportion of the variance in accomplishment explained by trustworthiness was most notable at almost 46%.

Perceived as vision-inspiring leaders of integrity and competence, the more trustworthy leaders in the study were apparently more effective in bringing about desired organizational outcomes than

were less trustworthy leaders. As measured in this study, *CEO Accomplishment* reflected the degree to which the CEO was effective in bringing about desired *organizational outcomes* which, by definition, require leader influence and the cooperation of others. The results, therefore, are consistent with traditional micro-level leadership research studies indicating the importance of leader trustworthiness to personal influence (e.g., Frost & Moussari, 1992; Gabarro, 1978; Kouzes & Posner, 1993a; Peppers, 1994) and leader effectiveness (Halverson, 1994). Evidence of the trustworthiness-accomplishment relationship is also consistent with studies indicating positive relationships between leader trustworthiness and enhanced subordinate commitment to the vision, job involvement (Kouzes & Posner, 1993a), job performance (Halverson, 1994), teamwork (Kouzes & Posner, 1993a; O'Reilly, 1984), communication and problem-solving effectiveness (Zand, 1972).

The data also supported the hypothesis that strategic leader accomplishment would be positively related to organizational performance. The strength of the relationship between the accomplishment of desired ends and organizational competitive performance, represented by the regression coefficient of .59 and the adjusted R^2 indicating explanatory power of almost 41%, suggests that leader-desired outcomes are related to superior competitive performance. Loosely, this may be interpreted as a reflection of leader competence in charting direction and strategy content.

A basic tenent of strategic management is that choosing an appropriate strategy which is aligned with environmental factors is a cornerstone of competitive performance (e.g., Ansoff, 1987; Hitt & Ireland, 1985; Porter, 1980, 1985; Rumelt, 1984). Accordingly, it seems reasonable to speculate that if CEOs were accomplishing goals and objectives which were inconsistent with environmental conditions, competitive performance would suffer. The accomplishment-performance relationship, then, may be interpreted loosely as a reflection of leader competence in charting a specific strategic direction. The positive association between accomplishing desired outcomes and superior competitive performance implies that the chosen goals and objectives were appropriate for

the competitive landscape and consistent with the organizational strengths and weaknesses; reflecting an important competency required of strategic leaders. Taking the support for Hypotheses 1a and 1b together somewhat validates the perception of competence underlying the evaluation of leader trustworthiness.

Based on the trust & leader influence literature reviewed in Chapter 2, one would expect the CEO's character to be reflected in the organization's strategic choices. It seems unlikely that a CEO would be perceived by constituents as trustworthy if the organization's actions were inconsistent with the criteria of integrity, goodwill, vision inspiration, and competence. To the degree that trustworthy leadership at the top creates a trustworthy organization, the inherent values should be reflected in the way the organization conducts business. Evidence of strong *CEO Trustworthiness* → *CEO Accomplishment* → *Organizational Performance* relationships is consistent with the mainstream strategy literature which emphasizes the substantive impact of the CEO as an important component of strategic leadership (e.g., Hambrick & Mason, 1984; Fahey & Christensen 1986; Gupta, 1988; Lefebvre & Lefebvre, 1992; Miles & Snow, 1978; Noel, 1989; Porter, 1985).

The direct effect of CEO trustworthiness on organizational performance expressed in Hypothesis 1c explained over eight percent of the variance in firm performance relative to competitors. Although the explanatory power of trustworthiness is small, finding a micro-level variable predictive of competitive performance at the macro-organizational level is a substantial finding, especially given the size of the sample. Evidence of the leader trustworthiness-competitive performance relationship suggests that strategic leadership is more than the substantive decision content reflected in direction setting, strategy, and resource allocations. As argued by Zaleznik (1989), effective organizational leadership appears to be a matter of both substance and personal influence based on leader trustworthiness.

Another implication of the trustworthiness-performance relationship is that *who the leader is* appears to make a difference. This is consistent with recent CEO succession studies providing evidence of relationships between other leader characteristics and organizational outcomes (Lant, Milliken & Batra, 1992; Pfeffer & Davis-Blake, 1986; Smith, Carson & Alexander, 1984). Evidence of the trustworthiness-performance relationship also supports recent arguments presented in the academic and popular press positing the importance of personal character and integrity in organizational leadership to superior economic and competitive performance (e.g., Badaracco & Ellsworth, 1989; Bennis, 1989; Covey, 1992; Granoveter, 1985; Horton & Reid, 1991; Kouzes & Posner, 1993a; Locke, 1991; Shapiro, 1990; Srivastva & Associates, 1988; Whitney, 1993; Zaleznik, 1989). In addition, the findings are consistent with recent empirical studies of trustworthiness and/or trust-based relations at the institutional level which provide evidence of derived benefits related to organizational competitiveness and economic performance (Dyer, 1994; Garmaise, 1993; Gulati, 1995; Larson, 1992; Parkhe, 1993).

When considered together, support for these three hypotheses provides evidence of the validity of the behaviorally-based model of leader trustworthiness as universally beneficial in the context of strategic leadership. Although far from conclusive, the results imply that when organizations are led by trustworthy strategic leaders, constituents appear to be able to trust the leadership initiatives, receptive to influence attempts, and inclined to cooperate in enacting the future charted by their leaders. As a result, strategic unity is facilitated supporting the achievement and maintenance of the organization's alignment with the environment, the accomplishment of organizational objectives, and superior competitive performance. Therefore, trustworthy strategic leaders may be expected to be superior in accomplishing targeted results and enhancing their organization's competitive performance regardless of environmental and/or organizational contingencies.

Contingent Advantage

Evidence of the moderating effects of organizational size, CEO tenure, and environmental uncertainty also provide empirical support for a contingency perspective concerning the relationship between strategic leader trustworthiness and organizational performance. The hierarchial regression analyses testing the moderating effects of tenure and environmental uncertainty showed evidence of positive moderation as hypothesized. Organizational size was also found to have positive moderating effects on the trustworthiness-performance relationship contrary to the negative moderation hypothesized. The findings for each hypothesis will be discussed separately in the following sections.

Moderating Effects of Organizational Size

Although it was hypothesized that the strength of the relationship between CEO trustworthiness and organizational performance would be reduced as organizations increased in size, the moderating effect of size detected in the analysis was *positive*. This suggests that as organizations become larger, having a trustworthy strategic leader is more beneficial in terms of competitive advantage than it is in smaller organizations. The regression coefficients generated from the data in this sample indicated the relationship between *CEO Trustworthiness* and *Organizational Performance* in organizations with more than 2448 employees was 2.27 times stronger than the relationship in organizations with fewer than 520 employees.

Based on complexity and constraints of structural forms observed in larger organizations, it was anticipated the strategic leader trustworthiness would be more valuable in smaller organizations where leadership is generally perceived to be more personal and formal bureaucratic structures inhibiting action less pervasive. The positive impact of size suggested by the data, however, offers new insight. The results indicate that overcoming the forces of inertia inherent in large organizations due to formal structural mechanisms perhaps is made possible when constituents have trust in

organizational leaders and the strategic choices they propose. Size creates difficulties in control, coordination, and communication (Hall, Haas & Johnson, 1967). Perhaps it is only when inspired constituents are able to believe in their leaders that they are motivated and willing to fight against the structural barriers that inhibit cooperation and performance. This interpretation is consistent with a conceptual framework concerning potential constraints to CEO discretion and organizational response outcomes developed by Hambrick and Finkelstein (1987).

Hambrick and Finkelstein (1987) identify three categories of CEO "latitude of action" determinants: external environmental factors, characteristics of the internal organization (e.g., size), and individual managerial characteristics. They discuss internal constraints to executive discretion and response outcomes in terms of constituents' "zone of acceptance," a concept originally developed by Barnard (1938) and Simon (1945) as a means of describing the willingness of subordinates to follow directions. Hambrick and Finkelstein develop a framework for predicting response outcomes based on the degree to which CEO actions (leadership efforts) are within the zone of acceptance of powerful constituents and whether or not the eventual effect of the actions on organizational performance is favorable or unfavorable.

Integrating the basic premise of trusting behavior within Hambrick and Finkelstein's (1987) framework suggests that, to the degree that leader trustworthiness serves to enlarge the zone of acceptance and enhance the degree to which constituents will exhibit cooperative responses despite unknown future outcomes, leader trustworthiness may mitigate some of the constraining inertial effects of organizational size. This is consistent with Hambrick and Finkelstein's (1987) proposition that the greater the chief executive's power base, the greater his or her discretion. They explain that powerful managers, by force of personal reputation, face only limited barriers in exercising decretion because they are able to act where many others would not have the opportunity. Therefore, CEOs deriving power from their reputations as inspiring persons of integrity and competence may have

fewer constraints to action in larger organizations than do less powerful CEOs. This would enable trustworthy leaders of large organizations to initiate and achieve adaptive responses necessary for superior performance. This is consistent with (1) the power-influence literature which demonstrates that effective leaders rely on a combination of personal and position-based sources of power (see Bass, 1990a; Yukl, 1989a, 1989b) and (2) recent empirical evidence that the relationship between the exercise of both personal and position power and leader influence is positively moderated by the level of trust in the leader (Frost & Moussari, 1992). Yukl (1989b) suggests that effective leaders supplement their position power with personal power and "use it [personal power] to make non-routine requests and motivate commitment to tasks that require high effort, initiative, and persistence" (p. 256).

Moderating Effects of CEO Tenure

Based on the importance of time to the conditional determination of trustworthiness (e.g., Dasgupta, 1988; Gabarro, 1978; Zand, 1972) and evidence of a relationship between leader trustworthiness and a wide variety of individual- and group-level attitudinal and performance outcomes (e.g., Kouzes & Posner, 1987; O'Reilly, 1984; Williams & Anderson, 1991; Zand, 1972) which also require time to impact overall organizational performance, CEO tenure was hypothesized to intensify the strength of the relationship between CEO trustworthiness and organizational performance. The data supported the hypothesis of a positive moderating effect of CEO tenure. This finding supports Kotter's (1982) observation that organizational experience allows leaders time to develop a network of cooperative relationships. The results also provide empirical support for Slater's (1989) proposition that the tenure of a trustworthy CEO should be related to the organization's ability to exploit trustworthy leadership as a resource.

It is interesting to note the strong negative relationship between CEO tenure and CEO trustworthiness revealed in the inital variables intercorrelation analysis (Table 5.8). The Pearson correlation between the *Trustworthiness* and *Tenure* measures was slightly less than -.50 ($p < .001$). Despite an apparent decrease in the perception of CEO trustworthiness as CEO tenure increased for the organizations in the sample, the two variables interacted to create a significant positive effect on the trustworthiness-organizational performance relationship.

The regression analysis also revealed significant main effects for *CEO Trustworthiness* in the presence of the moderating effects of *Tenure*. This suggests that only some of the performance benefits associated with trustworthy leadership are related to CEO tenure. This should not be interpreted to mean, however, that these effects are unrelated to time. Interviews with many of the CEOs in the sample revealed that many were promoted from within their organizations and, thus, had organizational tenure beyond that accrued as CEO. Reputation and relationships preceding appointment as CEO may be represented in the main effects detected in the regression analysis.

Main effects were also revealed for CEO tenure in the full model. This implies that there are performance benefits due to time in office that are independent of perceived trustworthiness of the CEO. This finding is consistent with research evidence reported by Slater (1989) indicating a positive relationship between the tenure of general managers and organizational performance regardless of strategy (i.e., the substantive content of strategic leadership).

Moderating Effects of Environmental Uncertainty

The positive moderating effects of environmental uncertainty were supported as hypothesized. The evidence suggests that as uncertainty increases, strategic leader trustworthiness is more strongly related to organizational performance. This is consistent with the recent resource-based proposition by Miller and Shamsie (1996) that adaptive capabilities derived from knowledge-based resources are

more valuable in environments requiring change. It appears that organizations operating in dynamic environments are able to function more efficiently and effectively when led by trustworthy strategic leaders than when they are not. However, once again, main effects were detected for *CEO Trustworthiness*. Significant main effects in the presence of moderation indicates that there are performance benefits related to trustworthiness that are independent of environmental uncertainty. Given the lack of research examining the outcomes of strategic leader trustworthiness, it is difficult to speculate concerning these benefits beyond arguments already discussed. However, it appears that some of the recently identified governance costs and opportunity-access benefits associated with trust-based economic exchange relationships (e.g., Dyer, 1994; Germaise, 1993; Gulati, 1995; Kim, 1994; Larson, 1992; Parke, 1993) may be important to an organization's competitive performance regardless of the rate of change and/or predictability within the market and technology domains of it's industry.

Summary & Conclusions

Two models of trustworthy strategic leadership as a competitive advantage were developed and partially tested in this study. The empirical findings support both the behaviorally-based universal model and the resource-based contingency model. The universal perspective, which builds on the organizational behavior and trust-based interfirm relations literature, suggests competitive performance is enhanced by strategic leader trustworthiness regardless of circumstances. According to the behavioral model, trustworthy strategic leaders are more influential and effective in maintaining the cooperation of important stakeholders which enables them to achieve targeted organizational results and superior competitive performance. This universal advantage perspective was supported not only by the empirical evidence supporting the three hypotheses based on the model, but also by the main effects revealed for CEO trustworthiness in testing the resource-based contingency model.

The evidence suggests that there are performance benefits linked to leader trustworthiness that persist across organizations and, specifically, across the situational variables examined in this study.

Support for the importance of organizational and environmental contingencies to the leader trustworthiness-competitive advantage relationship was also provided by the study. Analyses produced evidence of positive moderating effects of CEO tenure and environmental uncertainty which was consistent with the hypotheses concerning these relationships. Examination of organizational size as a moderator indicated that the moderating effect was positive rather than negative as hypothesized. Even though the direction of the moderation was the opposite of the direction hypothesized, empirical evidence of size as a moderator of the trustworthiness-performance relationship supports the resource-based perspective. Organizational size, CEO tenure and environmental uncertainty appear to be important contingencies to the value of leader trustworthiness as a source of competitive advantage.

It is interesting to note that the results also suggest that subtle differences in perceived trustworthiness are important. Based on the scale used to measure leader trustworthiness, average trustworthiness should be represented by a score roughly equal to the scale mean of fifty-four. The trustworthiness scores for the CEOs in this study were all fifty-four or above. Therefore, no CEO in the study was considered below average in terms of leader trustworthiness. This constitutes a restriction of range in the data which generally makes detection of empirical relationships difficult.

Despite this restriction of range, a significant relationship was observed between CEO trustworthiness and organizational performance. Reexamination of the graphs illustrating the moderating effects of size, tenure, and environmental uncertainty reveal that average trustworthiness (shown as Low Trustworthiness on the graphs) tends to be associated with below average performance. This suggests that only high levels of leader trustworthiness create value for the firm.

In conclusion, rather than finding one model superior to the other in explaining the strategic value of leader trustworthiness in the context of organizational leadership, the results of this study

suggest that both models are valid. The model presented in Figure 6 depicts the relationships revealed by the separate data analyses performed in this study.

There appear to be universal performance benefits associated with trustworthy strategic leadership and these benefits may be enhanced by certain environmental and organizational circumstances. Therefore, according to Gupta's (1988) recommended classification framework for leader characteristics affecting organizational performance, trustworthiness may be appropriately classified as simultaneously universalistic and contingent rather than strictly contingent, strictly universalistic, or irrelevant.

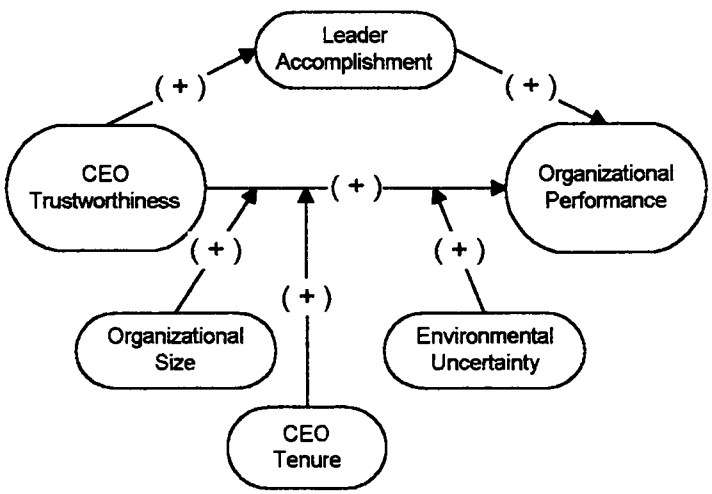


Figure 6. Model of Combined Study Results

Limitations of the Study

Before addressing the theoretical and practical implications of the present study, it is important to acknowledge several potential limitations of the research. A critical limitation arises from the cross-sectional nature of the data. Although the models examined in the study imply causal order, inferences concerning causality cannot be supported based on the cross-section data used in the analyses. For example, we do not know if CEO trustworthiness *causes* certain organizational outcomes resulting in superior firm performance as suggested by the models or if successful competitive performance *causes* leaders to be perceived as trustworthy. It is certainly reasonable to assume that superior organizational performance would serve as evidence of leader competence which is an essential component of leader trustworthiness. Future research should employ a longitudinal design in order to test for causality.

Another limitation of the study is the potential for inflated correlations between the primary variables due to common method variance. Although the moderating variables were represented by archival measures (size and tenure) or CEO responses (uncertainty), the perceptual data comprising the measures of CEO accomplishment, organizational performance and CEO trustworthiness were obtained from the TMT respondents from each firm. CEO responses were included in the calculation of the mean used as the performance measure, but there were at least two TMT respondents for each CEO. Therefore, there is the possibility that the reported relationships among these variables were inflated due to same-source bias. As the example above suggests, there is potential for systematic bias within a respondent's perception of trustworthy leadership, leader accomplishment, and organizational performance. After all, it was these relationships the study sought to test. The behavior-specific design of the trustworthiness measure was considered to limit the potential for this measurement error to some degree. The severity of inflation due to same-source bias is difficult to estimate. Crampton and Wagner (1994) concluded from the results of a recent comprehensive study

concerning the effects of common method variance, that inflation between perceptual measures may be more the exception than the rule in organizational research. Future researchers, however, are encouraged to utilize other methods of data collection (i.e., archival measures) in seeking to examine the relationships revealed in this research.

A third limitation arises from the survey method of data collection. With survey data, there is always the potential for response bias. Although the CEO response rate of 41% was considerably higher than the typical 10-12% response rate for mailed surveys to CEOs (Hambrick, et. al., 1993), the overall firm response rate was only 33%. It is unknown how the data that might have been provided by non-responding firms may have differed from that obtained from the firms that participated in the study. It is also not possible to determine how the responses of the non-responding TMT members might have differed from their counterpart TMT members who did respond. However, having multiple TMT respondents from each firm helped to assure the validity of the data collected. Over 73% of the firms participating in the study were represented by three or more members of the top management team.

Finally, the sample used in the study limits the generalizability of the findings. Although 45 different four-digit standard industry classifications were represented in the sample, all the firms were single-industry public firms located in the southeast. It is unknown whether the results derived from the data collected from this group of firms adequately represents relationships found in privately-owned firms, diversified firms, or firms located outside the southeastern region of the United States.

Contributions and Theoretical Implications

The study makes several contributions to leadership theory as well as to the resource-based perspective of competitive advantage. The primary significance of the study lies in its in-depth examination of strategic leadership in a manner that synthesizes traditional approaches which deal

with individual and group influence concepts with the more macro-oriented approaches which deal with broader organizational and environmental concerns. The examination of leader trustworthiness as a source of competitive advantage represents an application and test of micro-level leadership theory in a macro-level context and highlights one area of common ground upon which traditional approaches to the study of leadership can be synthesized with the more macro-oriented organizational and environmental perspectives. Several theorists have suggested that efforts toward the synthesis of these perspectives are greatly needed (e.g., Blair & Rivera, 1992; Hunt, 1991; Phillips & Hunt, 1992; Shrivastava & Nachman, 1989; Westley & Mintzberg, 1989) to advance the understanding of organizational leadership.

The findings of the study support the view that strategic leaders, as individuals, can make a difference. The empirical evidence provided by the study adds to that from other studies (e.g., Lant, Milliken & Batra, 1992; Pfeffer & Davis-Blake, 1986; Smith, Carson & Alexander, 1984), which call into question the theoretical view of population ecologists who question whether leaders at the highest level of organizations can have any significant impact on organizational outcomes (Hannan & Freeman, 1977; Lieberman & O'Connor, 1972; Weiner, 1978).

The findings also contribute to the growing strategic contingencies literature which seeks to identify strategic leader characteristics which are associated with superior firm performance. Consistent with recommendations for advancing this perspective (Gupta, 1988; Lawrence, 1997; Pettigrew, 1992), the study adds to the theory by: (a) identifying a potentially valuable leadership characteristic which has not been studied previously in this context, (b) identifying important contingencies to it's value, and (c) offering theoretical explanations for the relationship between the trustworthiness of the strategic leader and competitive performance.

For strategic management theorists and researchers, the study implies that strategic leadership can have both personal influence *and* substantive components as stressed by Zaleznik (1989) and

others (e.g., Bennis, 1989; Covey, 1992). This suggests that understanding the determinants of successful competitive performance will require examination of leaders along with substantive decisions (i.e., strategies) and environmental factors.

The study also makes a contribution to the development of the resource-based theory of organizational performance. Recently, Miller and Shamsie (1996) pointed out that there are very few reports in the literature of efforts to establish systematically if, when, and how specific resources influence organizational performance. They further criticize the prevalence of many generalizations about the merits of some resources which fail to consider the *contexts* within which these resources might be of value to an organization. Miller and Shamsie (1996) also stress, as do others (e.g., Amit & Schoemaker, 1993), the importance of moving beyond interesting conceptual work to the empirical identification of what constitutes a valuable resource, why and when. This study represents one step toward answering some of these questions by identifying strategic leader trustworthiness as a "valuable" resource with the potential to enhance competitive performance. The evidence suggesting that CEO tenure, organizational size, and environmental uncertainty increase the value of strategic leader trustworthiness should encourage the pursuit of contextual contingencies affecting the value of other resources.

Practical Implications

The empirical evidence reported in this study has several implications for practitioners. First, it clearly implies that the perception of the personal character of strategic leaders by constituents matters. Organizational leaders should be concerned about the personal impressions they make and the reputations they build for trustworthiness as a leader. This suggests attention should be given to *demonstrating* integrity, competence, and vision. Being trustworthy and being perceived as

trustworthy are two separate concepts. Trustworthy leaders must earn the trust of internal and external constituents by demonstrating behaviors that communicate their worthiness.

The need to demonstrate trustworthiness has implications for management development. The behaviorally-based measure of leader trustworthiness utilized in the study suggests that behaviors fostering the perception of leader trustworthiness can be identified. Managers should be aware that being worthy of trust and being perceived as worthy are conceptually separate. Organizations may want to consider emphasizing the importance of demonstrating specific behaviors, which not only build a reputation for trustworthiness but also impact the development of organizational culture through behavior modeling. This might be implemented in executive development programs and/or informally through the mentoring of junior executives. This is not to suggest that constituents can be fooled by "an act" (Ester, 1981) or that organizations should encourage leaders to be apocryphal.

The importance of leader trustworthiness to organizational performance also has implications for executive selection. Although it would be suspect to suggest that any board of directors would intentionally seek to employ the services of an executive of ruthful reputation as chief executive officer, it may be appropriate to suggest that consideration of the likelihood that a potential candidate will be perceived as a trustworthy leader by important stakeholders may not receive the attention it warrants. These considerations also apply to the selection of executives to head single-industry divisions, especially those operating in uncertain environments or those of considerable size. Indeed, if developing a culture of trust and an organization whose conduct reflects its trustworthiness is important to competitive performance, consideration of perceived trustworthiness potential appears to be an important criterion in management selection decisions at all organizational levels.

The study also has implications for executive performance evaluation. Performance criteria should be consistent with the time requirements to bring about improvements in organizational performance. According to the evidence provided in this study, organizations with trustworthy CEOs

enjoy significantly increased performance benefits after their CEOs have been in office more than three years. Short-term criteria and hasty decisions to replace trustworthy top executives may represent opportunity costs that cannot be overcome.

Future Research

This study investigated the potential value of strategic leader trustworthiness to organizational performance in a multi-industry sample of non-diversified public firms. The data provided evidence suggesting both universal and context-specific performance benefits of trustworthy leadership. However, given the cross-sectional nature of the data, causal inferences are not possible. Future studies utilizing a longitudinal research design should be pursued to examine the casual linkages implied by the theoretical models developed in the study. For example, as a follow-up to this study, further analyses could be performed using archival performance data for 1996-1998.

Other beneficial research might be pursued to test the generalizability of the findings to other populations. In attempting to replicate the findings, researchers may want to examine the leader trustworthiness-performance relationship and contingencies in other samples such as (1) single-industry public firms in other U.S. regions or countries, (2) private firms or (3) diversified firms. Also, verification of the observed relationships using other measures of the dependent and independent variables examined in the study would provide additional support for the models. Particular attention should be given to the measurement of environmental uncertainty in order to improve the reliability of measurement reported in this research study.

This work could also be extended by examining the relative importance of the underlying dimensions of leader trustworthiness. Integrity, competence, and vision inspiration may have differential effects on organizational outcomes. Also, the composite measure of leader trustworthiness used in this study was additive. Kouzes and Posner (1993a) suggest that all three

components are required and that they are interdependent. Therefore, the dimensions of trustworthiness may be compensatory factors. Might the perception of very high competence compensate for a lower level of inspiration in some situations?

Based on the results supporting both models examined in this study, additional research concerning the importance of strategic leader trustworthiness as a source of competitive advantage could be focused in either of two directions: (1) identifying additional contingencies to the value of trustworthy leadership as a source of competitive advantage, or (2) investigating the intermediating outcomes of strategic leader trustworthiness that affect the competitive performance of the organization. Although identifying additional contingencies to the value of leader trustworthiness may be interesting and would certainty contribute to the resource-based view, it seems that the greatest theoretical and practical benefits would be derived from research designed to clarify *how* trustworthiness impacts competitive performance.

A wide variety of potential mediating outcomes were presented in the theoretical description of the behaviorally-based universal model. However, most of these outcomes have not been empirically tested in the context of organizational leadership. One avenue might be to examine the relationships between strategic leader trustworthiness and the content of substantive decisions such as strategic goals, strategies, policies, and organizational designs. Other research might examine TMT trust, cohesion, decision processes and decision quality as outcomes of leader trustworthiness. Still other organizational theorists might pursue investigations of the characteristics of organizational climate and culture associated with strategic leader trustworthiness. Continued investigations at the institutional level of analysis concerning specific economic and/or opportunity benefits associated with interfirm trust-based relations between top-level executives would also add to our understanding of *how* leader trustworthiness contributes to organizational performance.

Therefore, it is suggested that, rather than continuing to neglect the intervening processes as has been common in upper echelons research, future research efforts intending to increase our understanding of leadership should follow the recommendations of Lawrence (1997) and Pettigrew (1992) to address the intervening processes linking leader characteristics with outcomes. As Lawrence (1997) warns, to omit these phenomena from investigations "move[s] researchers further and further away, both empirically and theoretically, from the actual mechanisms underlying observed relationships" (p. 21). As researchers identify associations between strategic leader trustworthiness, intermediate behavioral and economic outcomes, and organizational competitive performance, they will provide new insights concerning the process of leadership and the value of trustworthy strategic leadership as a source of competitive advantage. Without direct, concrete analysis of intervening mechanisms and processes, the reasons for any empirical links between trustworthy leadership and competitive performance cannot be explained.

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APPENDICES

APPENDIX A

PILOT STUDY

CONTENTS - APPENDIX A

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A-1

Pilot Study Summary

Prior to conducting the main study, the research methodology was tested on an independent sample of firms in a pilot study to determine (1) the response rates that could be anticipated from the CEOs and their TMT members, (2) the appearance and clarity of the questionnaires, (3) the appropriateness of the cover letters, and (4) the time required to complete each questionnaire.

The Sample and Procedures

The pilot study sample consisted of the forty-two nondiversified publicly-owned business firms listed in Compact Disclosure's SEC Database for the states of Alabama, Louisiana, and Mississippi. These southern states were considered more similar to those in the southeast in terms of culture and economy than were other possible choices.

A mail survey was conducted to gather primary data from the chief executive officer (CEO) and designated members of the top management team (TMT). The survey process began with a letter sent to the CEOs of the 42 firms announcing the study and requesting each firm's participation (Appendix A-2). Four days later, a questionnaire was sent each CEO (Appendix A-3) along with a cover letter providing more information about the study, requesting the firm's participation, and promising an executive summary of the study's results (Appendix A-4). A postage-paid return envelope was enclosed.

The CEO questionnaire requested responses to the measures concerning the firm's performance and the extent of uncertainty in the market and technological domains of the firm's environment. The CEOs were also asked to provide the names of the top ranking executives in charge of four functional areas: marketing, operations, finance, and human resources. In addition, CEOs were asked to respond to several items designed to assess the adequacy of the cover letter in providing the information needed, the time required to complete the questionnaire, the clarity of the items and instructions, and etc. A postage paid reply card requesting a summary of the study's results was enclosed for return by those CEOs who wanted to receive the summary (Appendix A-5).

A follow-up reminder letter (Appendix A-6) was mailed to each CEO eight days after the questionnaire was sent. Slow CEO response prompted several follow-up telephone calls to personally encourage participation. The insights gained and the outcomes of these conversations are discussed in the results section of this report.

As completed questionnaires were received from the CEOs, a cover letter (Appendix A-7) and TMT questionnaire (Appendix A-8) were sent to the executives identified by the CEOs. The TMT members were asked to provide responses to measures of CEO trustworthiness, CEO accomplishment, environmental uncertainty, and company performance. TMT executives were also asked to evaluate the survey materials in the same manner asked of the CEOs.

Measures

A summary table of the variables and perceptual measures included in the pilot study is presented in Appendix A-9.

Results

Of the forty-two invited to participate in the study, nine CEOs eventually returned completed questionnaires for a response rate of almost 21 percent. About half of the nine responded after being contacted by phone. Initially, two of the nine returned questionnaires without the requested names of TMT executives. The TMT names were obtained during a subsequent telephone conversation with the CEO. The CEOs from these firms indicated a general resistence to providing the names of company executives and suggested that personal contact would likely be more successful in obtaining names from other CEOs being contacted.

The average time required to complete the CEO questionnaire was four minutes. All responding CEOs indicated evaluated the questionnaire favorably. Six of the nine requested a summary of the study's results.

A questionnaire and cover letter were sent to 35 TMT members from the nine firms. A reminder postcard was mailed ten days later. Completed questionnaires were returned by 23 executives for a response rate of 65.7%. Of the nine firms, seven met an a priori criterion set for inclusion in the main study by

returning at least two completed TMT questionnaires. Although the TMT reponse rate was 77.7%, the effective firm response rate was only 16%.

The time required for TMT executives to complete the TMT questionnaire ranged from two to fifteen minutes. The average of the times reported was eight minutes. There were no negative responses to the questionnaire evaluation items.

Non-Respondents

Follow-up telephone calls to non-responding CEOs provided several insights that resulted in modifications to the planned methodology for the main study. A few CEOs confirmed earlier CEO comments related to a resistence to providing the names of other executives. There seemed to be a concern that the questionnaire sent to executives might be lengthy and the executives might feel pressured to participate in a time consuming survey. Several CEOs indicated that they receive several surveys every month and prefer to have as much information as possible about a study and what participation involves in order to make an informed decision about participating.

Conclusions and Revisions

Based on the pilot study it was determined that the CEO response rate could be greatly increased through personal contact. The announcement-questionnaire-reminder process had required some phone follow-up to obtain even a 21% response rate. It seemed that phone calls were necessary to obtain cooperation and achieve an acceptable sample size.

The methodology for the main study was reconsidered and telephone interviews were substituted for the previously planned questionnaires as the means for collecting data from the CEOs. Telephone interviews were considered more efficient and allowed for quota random sampling. It was estimated that the anticipated CEO response rate would be greatly increased, possibly doubling that obtained in the pilot study.

A-2

Study Announcement Letter

THE UNIVERSITY OF TENNESSEE
KNOXVILLE

College of Business Administration
Department of Management
408 Stokely Management Center
Knoxville, Tennessee 37996-0545
(423) 974-3161
Fax (423) 974-3163

DATE

FIELD(Pres/CEO)
FIELD(Company)
FIELD(Address) FIELD(Zip)

Dear FIELD(salutation),

Within a few days, you will receive a request for your company to participate in a national study concerning strategic leadership in business. Requests are being sent to a small group of top executives from a variety of industries.

The study is being conducted to examine aspects of organizational leadership that may be linked to organizational performance. The knowledge gained will better inform business leaders, consultants, and those involved in the education and development of tomorrow's leaders.

Participation in the study will involve the completion of a brief questionnaire by you, as the top executive, and four members of your top management team. Each questionnaire can be completed in about 10 minutes. Gathering information in this way allows us to get the perspectives of several executives without asking anyone to complete a lengthy questionnaire.

Leonardo da Vinci observed long ago that *All our knowledge has its origins in our perceptions*. The perceptions of organizational leaders, the people doing the job, are the most valuable in helping us to understand strategic leadership and to identify aspects leading to organizational performance.

We will greatly appreciate your taking the few minutes necessary to complete and return your questionnaire.

Sincerely,

Kathryn Jones
Project Director

William Q. Judge
Associate Professor of Management

A-3

CEO Cover Letter

THE UNIVERSITY OF TENNESSEE
KNOXVILLE

College of Business Administration
Department of Management
408 Stokely Management Center
Knoxville, Tennessee 37996-0545
(423) 974-3161
Fax (423) 974-3163

DATE

FIELD(CEO/PRES)
FIELD(Company)
FIELD(Address) FIELD(Zip)

Dear FIELD(Name),

As a business leader, you are probably well aware of numerous books and management consultants claiming to have *the answer* to effective organizational leadership. Without knowing which of these claims are valid, leaders and management development dollars may or may not be focused on the most important aspects of leadership.

Your company is one of a small number being asked to participate in a national study of strategic leadership. Of course, this study will not provide all the answers, but will examine some of what strategic leaders do that works. Your perceptions and those of your top managment team are very important in order for the results of the study to truly represent the experience of business leaders.

The enclosed CEO survey asks you to provide information concerning aspects of your firm's external environment, your company's performance, and the names of the top level executives who have primary responsibility for four functional areas. Completing the survey should take only about 10-15 minutes. A return envelope is enclosed for your convenience.

When your completed survey is returned indicating the cooperation of your firm, a Top Management Team survey will be sent to each of the four executives you have identified. The TMT questionnaire requests information concerning leadership behavior, perceived effectiveness, and organizational performance. The TMT survey can also be completed in less than 15 minutes.

You may be assured of complete confidentiality. Neither the name of your company nor the names of individuals will ever be placed on questionnaires. The responses provided by members of your firm will be combined with those from other firms before any of the data is analyzed. The reference number printed on each questionnaire is for mailing purposes only. The number enables us to update our response list so we won't bother you with unnecessary reminders.

In appreciation of your cooperation, an Executive Summary of the new information gained from the study will be provided upon request. To receive the summary, simply return the enclosed Executive Summary Request card along with your completed questionnaire.

I will be happy to answer any questions you may have about the study. Please write, fax, or call with any questions or concerns. My direct phone line is 423-974-6243.

Your cooperation and contribution to this effort is greatly appreciated. Thank you for your assistance.

Sincerely,

Kathryn Jones
Project Director

William Q. Judge
Associate Professor of Management

CEO Questionnaire

SURVEY EVALUATION

Check (√) the box corresponding to your answer to each of the following questions.
Please provide a brief explanation of disagreement.

1. Does the cover letter that accompanied this survey provide sufficient information? ❑ YES ❑ NO

   What additional information would you have liked?

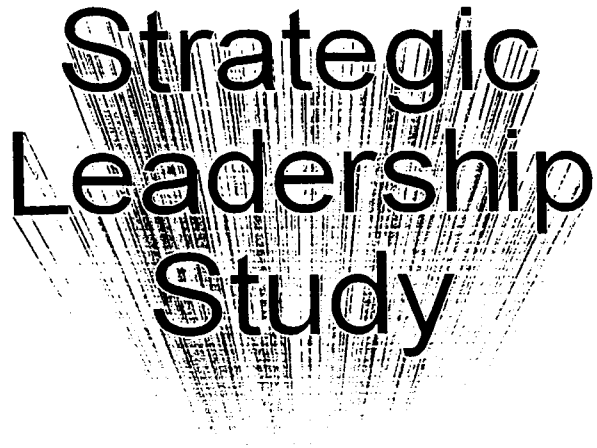
2. Are the instructions for completing the survey are easy to understand? ❑ YES ❑ NO
   If NO, please identify any set of instructions that were unclear by checking (√) the corresponding box or boxes below.
   - ❑ Environmental Uncertainty
   - ❑ Company Performance
   - ❑ Top Management Team
   - ❑ Demographics

3. Are all survey questions clear and easy to understand? ❑ YES ❑ NO
   Which questions were ambiguous? Please list question number(s) and explain.

4. Is the printing type size large enough so that the survey is easy to read? ❑ YES ❑ NO

5. Additional Comments?

Thank you for your cooperation.
Your participation is greatly appreciated.



CEO Survey

The University of Tennessee
402 Stokely Management Center
Knoxville, Tennessee 37996

CHIEF EXECUTIVE SURVEY

ENVIRONMENTAL UNCERTAINTY

Indicate the degree to which you agree with the following statements concerning your firm's external environment. Circle the number that corresponds with your level of agreement or disagreement.

Strongly Disagree	Disagree	Somewhat Disagree	Neither Agree or Disagree	Somewhat Agree	Agree	Strongly Agree
1	2	3	4	5	6	7

1. The rate of product obsolescence in our industry is high. 1 2 3 4 5 6 7
2. In our industry, major changes in production and service technologies occur often. 1 2 3 4 5 6 7
3. Our firm must change its marketing practices frequently in order to keep up with the market and competitors. 1 2 3 4 5 6 7
4. In our industry, demand and customer tastes are almost impossible to predict. 1 2 3 4 5 6 7
5. The actions of competitors in our industry are very unpredictable. 1 2 3 4 5 6 7

COMPANY PERFORMANCE

Using the scale below, compare your firm's performance with that of your competitors. Circle the number that indicates your firm's comparative performance.

Much Less		About the Same		Much Greater
1	2	3	4	5

Since becoming CEO, our firm's. . .

6. increase in sales has been 1 2 3 4 5 than our competitors'.
7. increase in market share has been 1 2 3 4 5 than our competitors'.
8. increase in earnings has been 1 2 3 4 5 than our competitors'.
9. return on investment has been 1 2 3 4 5 than our competitors'.

TOP MANAGEMENT TEAM

Please provide the names and position titles of the top level executives with primary responsibility for the following four functional areas. Print names and titles in the spaces beside each functional area listed below. Each executive listed below will receive a survey.

	NAME	TITLE
Marketing / Sales		
Production / Operations		
Finance / Accounting		
Human Resources / Personnel		

DEMOGRAPHICS

Please check (√) the appropriate box to indicate your answer to the questions below.

10. Consecutive years of employment since hired for first job with this company?

❑ *less than 5 years* ❑ *5-9 years* ❑ *10-14 years* ❑ *15-19 years* ❑ *20 or more years*

11. Gender? ❑ *Male* ❑ *Female*

■ How long did it take you to complete these two pages of the survey? _____ minutes.

Please continue to next page for Survey Evaluation ☞

A-5

Executive Summary Reply Card

EXECUTIVE SUMMARY REQUEST

Yes, please send me an executive summary of the strategic leadership study.

FIELD(CEO/PRES)
FIELD(Company)
FIELD(Address)FIELD(Zip)

Enclose this card with your completed survey.

A-6

Follow-up CEO Reminder Letter

THE UNIVERSITY OF TENNESSEE
KNOXVILLE



College of Business Administration
Department of Management
408 Stokely Management Center
Knoxville, Tennessee 37996-0545
(423) 974-3161
Fax (423) 974-3163

DATE

FIELD(CEO/PRES)
FIELD(Company)
FIELD(Address) FIELD(Zip)

Dear FIELD(Name),

A few weeks ago, we wrote to you seeking the participation of your company in a national study concerning strategic leadership in business. As of today, we have not received your completed questionnaire. I realize you may not yet have found a free moment to complete it and am writing hoping to encourage you to do so today.

The study is being conducted to test some of the popular notions concerning how leaders impact the performance of their organizations. The usefulness of the study depends upon our getting information based on experience from a representative sample of today's business leaders. You and your executive team have valuable insights essential to the purposes of the study.

We will genuinely appreciate your cooperation in taking a few moments to give us your perspectives and the requested names of members of your top management team. Requesting information from several executives in each company not only allows us to benefit from multiple perspectives, but also allows us to avoid asking anyone to complete a lengthy questionnaire. None of the questionnaires should take more than 10 minutes to complete.

In the event that your questionnaire has been misplaced, a replacement is enclosed. Should you have any concerns or questions about the study, please contact me by phone or fax.

We look forward to your reply. Your participation is greatly appreciated.

Sincerely,

Kathryn Jones
Project Director
Strategic Leadership Study

A-7

Top Management Team Cover Letter

THE UNIVERSITY OF TENNESSEE
KNOXVILLE

College of Business Administration
Department of Management
408 Stokely Management Center
Knoxville, Tennessee 37996-0545
(423) 974-3161
Fax (423) 974-3163

DATE

FIELD(mktg)
FIELD(Company)
FIELD(Address) FIELD(Zip)

Dear FIELD(mktg salutation),

The chief executive of your company has accepted our invitation for your firm to participate in a national study concerning corporate leadership. During a recent interview, FIELD(salutation) gave us your name along with the names of other members of your top management team who are also being asked to provide additional information.

The purpose of the study is to test some of the popular notions being written today about how strategic leaders affect the performance of their firms. The enclosed questionnaire requests *your* perspectives concerning your industry's environment, your CEO's leadership behavior and accomplishments, and the competitive performance of your firm. As the head of a major functional area, *your* observations and opinions are essential to the purposes of the study.

The questions are brief and straight-forward so that you can move quickly through the survey. Based on pretests, completing the questionnaire should take only about 10 minutes. It is important that you complete each section by responding to every question as honestly as you can. The validity of the study depends upon candid information.

The questionnaire does not ask for your name or any information that might identify you personally. The reference number on the front will be used to record the number of surveys received from your organization and prevents anyone else from associating this questionnaire with you or your company. Your answers will be held in strict confidence. No other person will have access to the information you provide and no one will receive a summary of any kind concerning the responses obtained from your particular firm. Only after the data from all participating firms has been collected and combined will there be any analysis of data. Protecting your anonymity is a high priority and considered essential in encouraging your candid responses to the questions in the survey.

We ask that you return your completed questionnaire within one week to ten days. A reply envelope is enclosed. Should you have any questions or concerns regarding the study or the questionnaire, please contact me by phone or Fax. My direct phone line is 423-974-6243.

Your collaboration and cooperation are greatly appreciated.

Sincerely,

Kathryn Jones
Project Director

William Q. Judge
Associate Professor of Management

A-8

Top Management Team Questionnaire

SURVEY EVALUATION

1. How long did it take you to complete this two-page survey? _____minutes.

For the following questions, check (√) the box corresponding to your answer. Please provide a brief explanation if your answer is NO. Additional comments are welcome and encouraged.

2. Does the cover letter that accompanied this survey provide sufficient information? ☐ YES ☐ NO

   What additional information would you have liked to receive?

3. Is the printing type size large enough and easy to read? ☐ YES ☐ NO

4. Are the instructions easy to understand? ☐ YES ☐ NO

   If not, please identify any set of instructions that were unclear by checking (√) the corresponding box or boxes:

   ☐ Environmental Uncertainty ☐ Demographics
   ☐ Company Performance ☐ Leadership

5. Are all survey questions clear and easy to understand? ☐ YES ☐ NO

   Please list the number(s) of any questions that were unclear and briefly explain.

6. Additional comments?

Thank you.
Your participation is greatly appreciated.

Survey #

Strategic Leadership Study

Top Management Team Survey

The University of Tennessee
Department of Management
408 Stokely Management Center
Knoxville, Tennessee 37996

ENVIRONMENTAL UNCERTAINTY

Please indicate the degree to which you agree with the following statements concerning your firm's external environment. Using the scale below, circle the number that corresponds with your level of agreement or disagreement.

Strongly Disagree	Disagree	Somewhat Disagree	Neither Agree or Disagree	Somewhat Agree	Agree	Strongly Agree
1	2	3	4	5	6	7

1. The rate of product obsolescence in our industry is high. 1 2 3 4 5 6 7
2. In our industry, major changes in production and service technologies occur often. 1 2 3 4 5 6 7
3. Our firm must change its marketing practices frequently in order to keep up with the market and competitors. 1 2 3 4 5 6 7
4. In our industry, demand and customer tastes are almost impossible to predict. 1 2 3 4 5 6 7
5. The actions of competitors in our industry are very unpredictable. 1 2 3 4 5 6 7

COMPANY PERFORMANCE

Using the scale below, compare your firm's performance with that of your competitors. Circle the number that indicates your firm's comparative performance.

Much Less		About the Same		Much Greater
1	2	3	4	5

Since our CEO took office, our firm's. . .

6. increase in sales has been 1 2 3 4 5 than our competitors'.
7. increase in market share has been 1 2 3 4 5 than our competitors'.
8. increase in earnings has been 1 2 3 4 5 than our competitors'.
9. return on investment has been 1 2 3 4 5 than our competitors'.

DEMOGRAPHICS

Please indicate your answer to the each of the following items by checking (√) the appropriate box.

2. How long have you been in your current position?

❑	❑	❑	❑	❑	❑
< 1 year	1-2 yrs.	3-4 yrs.	5-8 yrs.	9-12 yrs.	13 or more years

3. How long have you known the CEO of your organization?

❑	❑	❑	❑	❑	❑
< 1 year	1-2 yrs.	3-4 yrs.	5-8 yrs.	9-12 yrs.	13 or more years

4. Gender? ❑ Male ❑ Female

LEADERSHIP

This section contains statements about various leadership behaviors and activities. Please read each statement carefully. Then, based on your knowledge of the decisions and actions of the CEO of your organization, rate the frequency with which each statement is true of your CEO.

Using the scale provided, circle the number that corresponds with the frequency you have selected.

Rarely or Very Seldom	Once in a While	Sometimes	Fairly Often	Very Frequently or Almost Always
1	2	3	4	5

The CEO of our firm . . .

11. is candid in expressing how he/she feels about matters. 1 2 3 4 5
12. Stays current on business matters. 1 2 3 4 5
13. Looks ahead and forecasts what he/she expects the future to be like. 1 2 3 4 5
14. Is able to see both sides of an issue. 1 2 3 4 5
15. Demonstrates a good grasp of the core competencies of our business. 1 2 3 4 5
16. Describes to others the kind of future he/she would like for us to create together. 1 2 3 4 5
17. Makes rational and reasonable decisions. 1 2 3 4 5
18. Brings new competencies to our team. 1 2 3 4 5
19. Clearly communicates a positive and hopeful outlook for the future of our organization. 1 2 3 4 5
20. Can be counted on to do what he/she has promised. 1 2 3 4 5
21. Knows what he/she is talking about when giving an opinion. 1 2 3 4 5
22. Appeals to others to share his/her dream of the future as their own. 1 2 3 4 5
23. Demonstrates concern for the best interests of others when making decisions. 1 2 3 4 5
24. Is able to handle conflicts and stress effectively. 1 2 3 4 5
25. Shows others how their long-term interests can be realized by enlisting in a common vision. 1 2 3 4 5
26. Is fair in making decisions. 1 2 3 4 5
27. Asks questions which go the heart of the matter. 1 2 3 4 5
28. Is contagiously excited and enthusiastic about future possibilities. 1 2 3 4 5

Our CEO has . . .

29. accomplished what he/she stated he/she wanted to accomplish so far. 1 2 3 4 5
30. achieved his/her management objectives in the past year. 1 2 3 4 5
31. been able to achieve his/her goals for the organization so far. 1 2 3 4 5
32. not been able to overcome adversity affecting the organization. 1 2 3 4 5
33. overcome obstacles in accomplishing his/her desires for the organization. 1 2 3 4 5

Thank you for your cooperation.

Please continue for a quick evaluation of the survey. ☞

A-9

Summary of Pilot Study Variables and Measures

Variable	Description of Measurement	
	Measure	Data Source
CEO Accomplishment Degree to which CEO has achieved his/her stated goals and objectives. (Agle & Sonnefeld, 1994)	Perceptual, 5-items, Likert response scale. Scale score equals sum of all item responses. Range: 5-25	TMT Members
Organizational Performance Growth and profitability relative to competitors. (Agle & Sonnefeld, 1994)	Perceptual, 4 financial indicator items, Likert scale. Scale score equals sum of all item responses. Range: 4 - 20	CEO and TMT Members
CEO Trustworthiness An attribution; the degree to which CEO satisifies the criteria for trust as a leader: Integrity, Vision Inspiration, Leader Competence. (Kouzes & Posner, 1987)	Perceptual, 18 behavioral items, 5-point Likert scale. Scale score equals sum of all item responses. Range: 18-90.	TMT Members
Environmental Uncertainty Degree of change and unpredictability in market-related and technological dimensions of external environment. (Miller & Droge, 1986)	Perceptual, 5-item Likert scale. Scale score equals sum of all item responses. Potential Range: 18 - 90	TMT Members and CEO

APPENDIX B

METHODOLOGY SUPPLEMENTS

CONTENTS - APPENDIX B

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B-1

CEO Invitation Letter

THE UNIVERSITY OF TENNESSEE
KNOXVILLE



College of Business Administration
Department of Management
408 Stokely Management Center
Knoxville, Tennessee 37996-0545
(423) 974-3161
Fax (423) 974-3163

DATE

FIELD(CEO/Pres)
FIELD(Company)
FIELD(Address) FIELD(Zip)

Dear FIELD(salutation),

As a business leader, you are probably aware of the many books and consultants claiming to have *the answer* to effective organizational leadership. However, what sells books may or may not work in practice. Given the pressures on business performance and the costs of management development, we trust you will agree that we need to learn as much as we can about effective leadership.

Your company is one of a small number being asked to participate in a national study of strategic leadership. The study is being conducted to test some of the popular notions being written today about how strategic leaders impact the performance of their organizations. Of course, our study will not provide all the answers, but the *new* information gained will better inform business leaders, consultants, and those involved in the education and development of tomorrow's leaders. The usefulness of the study, however, depends upon our getting information, based on *actual experience,* from a representative sample of today's business leaders.

Because we respect the demands on your time, cannot conduct a meaningful study without your cooperation, and know you are frequently asked to share your insights, we have designed our study in a way we hope encourages your cooperation. To minimize any imposition, information is being collected from a variety of public and private sources. Participation by your company will involve cooperation in two phases:

Phase One: *Your* personal participation in a brief 10-minute telephone interview.
Phase Two: A mail survey to four members of your top management team which you will be asked to identify. Pretests indicate that the two-page questionnaire can be completed in less than 10 minutes.

Requesting information from several executives allows us to benefit from multiple perspectives without asking anyone to complete a lengthy questionnaire. We will be asking for observations and opinions concerning leadership behaviors; external factors affecting your organization; leadership effectiveness; and organizational performance. We will not request financial figures or any information that might require additional time or effort to obtain.

The information provided by your organization will be held in confidence. Interview and survey responses will be combined with those from other firms before any data analyses are performed. In appreciation of your cooperation, an executive summary of the findings will be provided to all participating executives who wish to receive one.

I will contact your assistant within a week to 10 days to confirm your company's participation and to schedule a time, at your convenience, for the telephone interview. I will be happy to answer any questions you may have about the study at that time or you may contact me at the number indicated below.

Your perceptions and those of your top management team are essential to the purposes of our study. We ask that you seriously consider joining us in this effort to learn more about effective strategic leadership. Your cooperation and contribution to this effort will be greatly appreciated. Thank you for your consideration.

Sincerely,

Kathryn Jones
Project Director
(423) 974-6243

William Q. Judge
Associate Professor of Management

B-2

CEO Interview Form

STRATEGIC LEADERSHIP STUDY **CEO INTERVIEW FORM**

DATE _____ TAPE # _____ DIGITAL # _____

CEO / PRESIDENT _____	PHONE _____
COMPANY _____	BUSINESS _____
ADDRESS (if changed recently) _____	STATE _____

CEO Gender? ❑ Male ❑ Female

For purposes of accuracy, may I have your permission to record our conversation? ❑ Yes ❑ No

QUESTIONS

1. How long have you been CEO/President of _____ ? Since 19____ ; _____ years.

2. How many CEOs preceeded you ? _____

3. When you became CEO, were you promoted from within the company? ❑ Yes ❑ No

   If YES,

   Total number of years since first employed by this company? _____years. Consecutive ?

   If NO,

   Were you the CEO of another company or was this your first CEO position? ❑ Yes ❑ First

   Total years of CEO experience? _____ years.

4. In your experience as a CEO, what has been the greatest personal challenge you have faced as a leader?

5. What *two* personal strengths do you believe enable you to be an effective leader?

6. What role does trust/trustworthiness play in your leadership? (Please describe.)

7. What practices to you engage in or endorse in your company (through policies, etc.) that you feel foster trust in your leadership (or company) from those inside and/or outside your firm?

ENVIRONMENTAL UNCERTAINTY

Indicate the degree to which you agree with the following statements concerning your firm's external environment.

Circle response	Strongly Disagree	Disagree	Somewhat Disagree	Neither Agree or Disagree	Somewhat Agree	Agree	Strongly Agree
	1	2	3	4	5	6	7

1. The rate of product obsolescence in our industry is high. 1 2 3 4 5 6 7
2. In our industry, major changes in production and service technologies occur often. 1 2 3 4 5 6 7
3. Our firm must change its marketing practices frequently in order to keep up with the market and competitors. 1 2 3 4 5 6 7
4. In our industry, demand and customer tastes are almost impossible to predict. 1 2 3 4 5 6 7
5. The actions of competitors in our industry are very unpredictable. 1 2 3 4 5 6 7

COMPANY PERFORMANCE

Compare your firm's performance with that of your competitors. Circle response.

Much Less		About the Same		Much Greater
1	2	3	4	5

Since becoming CEO, our firm's. . .

6. increase in sales has been 1 2 3 4 5 than our competitors'.
7. increase in market share has been 1 2 3 4 5 than our competitors'.
8. increase in earnings has been 1 2 3 4 5 than our competitors'.
9. return on investment has been 1 2 3 4 5 than our competitors'.

TOP MANAGEMENT TEAM

	NAME	TITLE & ADDRESS IF DIFFERENT
Marketing / Sales		
Production / Operations		
Finance / Accounting		
Human Resources / Personnel		

Would you like to receive an executive summary of the results from the study? ❑ Yes ❑ No

B-3

Top Management Team Cover Letter

THE UNIVERSITY OF TENNESSEE
KNOXVILLE

College of Business Administration
Department of Management
408 Stokely Management Center
Knoxville, Tennessee 37996-0545
(423) 974-3161
Fax (423) 974-3163

DATE

FIELD(mktg)
FIELD(Company)
FIELD(Address) FIELD(Zip)

Dear FIELD(mktg salutation),

The chief executive of your company has accepted our invitation for your firm to participate in a national study concerning corporate leadership. During a recent interview, FIELD(salutation) gave us your name along with the names of other members of your top management team who are also being asked to provide additional information.

The purpose of the study is to test some of the popular notions being written today about how strategic leaders affect the performance of their firms. The enclosed questionnaire requests *your* perspectives concerning your industry's environment, your CEO's leadership behavior and accomplishments, and the competitive performance of your firm. As the head of a major functional area, *your* observations and opinions are essential to the purposes of the study.

The questions are brief and straight-forward so that you can move quickly through the survey. Based on pretests, completing the questionnaire should take only about *10 minutes*. It is important that you complete each section by responding to every question as honestly as you can. The validity of the study depends upon candid information.

The questionnaire does not ask for your name or any information that might identify you personally. The reference number on the front will be used to record the number of surveys received from your organization and prevents anyone else from associating this questionnaire with you or your company. Your answers will be held in strict confidence. No other person will have access to the information you provide and no one will receive a summary of any kind concerning the responses obtained from your particular firm. Only after the data from all participating firms has been collected and combined will there be any analysis of data. Protecting your anonymity is a high priority and considered essential in encouraging your candid responses to the questions in the survey.

We ask that you return your completed questionnaire within one week to ten days. A reply envelope is enclosed. Should you have any questions or concerns regarding the study or the questionnaire, please contact me by phone or Fax. My direct phone line is 423-974-6243.

Your collaboration and cooperation are greatly appreciated.

Sincerely,

Kathryn Jones
Project Director

William Q. Judge
Associate Professor of Management

B-4

Top Management Team Questionnaire

ENVIRONMENTAL UNCERTAINTY

Please indicate the degree to which you agree with the following statements concerning your firm's external environment. Using the scale below, circle the number that corresponds with your level of agreement or disagreement.

Strongly Disagree	Disagree	Somewhat Disagree	Neither Agree or Disagree	Somewhat Agree	Agree	Strongly Agree
1	2	3	4	5	6	7

1. The rate of product obsolescence in our industry is high.	1	2	3	4	5	6	7
2. In our industry, major changes in production and service technologies occur often.	1	2	3	4	5	6	7
3. Our firm must change its marketing practices frequently in order to keep up with the market and competitors.	1	2	3	4	5	6	7
4. In our industry, demand and customer tastes are almost impossible to predict.	1	2	3	4	5	6	7
5. The actions of competitors in our industry are very unpredictable.	1	2	3	4	5	6	7

COMPANY PERFORMANCE

Using the scale below, compare your firm's performance with that of your competitors. Circle the number that indicates your firm's comparative performance.

Much Less		About the Same		Much Greater
1	2	3	4	5

Since our CEO took office, our firm's. . .

6. increase in sales has been	1	2	3	4	5	than our competitors'.
7. increase in market share has been	1	2	3	4	5	than our competitors'.
8. increase in earnings has been	1	2	3	4	5	than our competitors'.
9. return on investment has been	1	2	3	4	5	than our competitors'.

DEMOGRAPHICS

Please indicate your answer to the each of the following items by checking (√) the appropriate box.

10. How long have you been in your current position?

❑	❑	❑	❑	❑	❑
< 1 year	1-2 yrs.	3-4 yrs.	5-8 yrs.	9-12 yrs.	13 or more years

11. How long have you known the CEO of your organization?

❑	❑	❑	❑	❑	❑
< 1 year	1-2 yrs.	3-4 yrs.	5-8 yrs.	9-12 yrs.	13 or more years

12. Your Gender? ❑ Male ❑ Female

13. Would you like to receive an Executive Summary of the study's results? ❑ Yes ❑ No

LEADERSHIP

This section contains statements about various leadership behaviors and activities. Please read each statement carefully. Then, based on your knowledge of the decisions and actions of the CEO of your organization, rate the frequency with which each statement is true of your CEO.

Using the scale provided, circle the number that corresponds with the frequency you have selected.

Rarely or Very Seldom	Once in a While	Sometimes	Fairly Often	Very Frequently or Almost Always
1	2	3	4	5

The CEO of our firm . . .

14.	Is candid in expressing how he/she feels about matters.	1	2	3	4	5
15.	Stays current on business matters.	1	2	3	4	5
16.	Looks ahead and forecasts what he/she expects the future to be like.	1	2	3	4	5
17.	Is able to see both sides of an issue.	1	2	3	4	5
18.	Demonstrates a good grasp of the core competencies of our business.	1	2	3	4	5
19.	Describes to others the kind of future he/she would like for us to create together.	1	2	3	4	5
20.	Makes rational and reasonable decisions.	1	2	3	4	5
21.	Brings new competencies to our team.	1	2	3	4	5
22.	Clearly communicates a positive and hopeful outlook for the future of our organization.	1	2	3	4	5
23.	Can be counted on to do what he/she has promised.	1	2	3	4	5
24.	Knows what he/she is talking about when giving an opinion.	1	2	3	4	5
25.	Appeals to others to share his/her dream of the future as their own.	1	2	3	4	5
26.	Demonstrates concern for the best interests of others when making decisions.	1	2	3	4	5
27.	Is able to handle conflicts and stress effectively.	1	2	3	4	5
28.	Shows others how their long-term interests can be realized by enlisting in a common vision.	1	2	3	4	5
29.	Is fair in making decisions.	1	2	3	4	5
30.	Asks questions which go the heart of the matter.	1	2	3	4	5
31.	Is contagiously excited and enthusiastic about future possibilities.	1	2	3	4	5

Our CEO has . . .

32.	accomplished what he/she stated he/she wanted to accomplish so far.	1	2	3	4	5
33.	achieved his/her management objectives in the past year.	1	2	3	4	5
34.	been able to achieve his/her goals for the organization so far.	1	2	3	4	5
35.	not been able to overcome adversity affecting the organization.	1	2	3	4	5
36.	overcome obstacles in accomplishing his/her desires for the organization.	1	2	3	4	5

Thank you for your cooperation.
Your participation is greatly appreciated.

B-5

Top Management Team Reminder Postcard

A brief questionnaire was sent to you recently seeking your perspectives concerning strategic leadership in your firm. Your company is one of a small number that has agreed to participate in this study which is seeking to test some of the popular notions about effective business leadership.

Your observations and opinions are very important in order for the results of the study to truly represent the experience of business executives. If you have already completed and returned the questionnaire, please accept our sincere thanks. If not, please do so today.

We are especially grateful for your cooperation not only because your insights are valuable, but because we understand that our survey may not be the most pressing matter on your "things-to-do today" list.

If you did not receive a questionnaire or if it has been misplaced, please notify me by phone or fax and I will get another in the mail to you today.



Sincerely,

Kathryn Jones
Project Director
Phone: 423-974-6243
FAX: 423-974-3491

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Second Top Management Team Cover Letter

THE UNIVERSITY OF TENNESSEE
KNOXVILLE

College of Business Administration
Department of Management
408 Stokely Management Center
Knoxville, Tennessee 37996-0545
(423) 974-3161
Fax (423) 974-3163

DATE

FIELD(mktg)
FIELD(Company)
FIELD(Address) FIELD(Zip)

Dear FIELD(mktg salutation),

Several weeks ago, a brief questionnaire was sent to you seeking your perspectives concerning strategic leadership in your firm. Your company is one of a small number that has agreed to participate in this effort to test some of the popular notions about effective leadership and *your* observations and opinions are essential.

As of today, we have not received your completed questionnaire. If you have already mailed it, please accept my sincere thanks. If not, please complete the duplicate questionnaire enclosed and return it in the postage-paid envelope within the next couple of days. Your responses are completely confidential.

This study is my dissertation research and I am getting very close to the deadline for data collection. Your prompt response will be greatly appreciated.

Thank you for your cooperation and insights.

Sincerely,

Kathryn Jones
Project Director
Strategic Leadership Study
Phone: 423-974-6243
FAX: 423-974-3491

VITA

Kathryn (Kathy) Ann Jones was born in Fort Worth, Texas, December 29, 1949. She graduated from Alvarado High School in Alvarado, Texas, in May 1968. After working more than a decade in sales management in the resort segment of the lodging industry, Kathy returned to college and graduated summa cum laude from Kent State University in May 1985 with a Bachelor of Business Administration degree. She completed her M.B.A. in May 1987 at East Texas State University and accepted a full-time position as an instructor in the Hotel & Restaurant Administration Program at the University of Tennessee, Knoxville. While on the faculty, Kathy pursued doctoral studies in the College of Business with a concentration in strategic management. She was awarded her Ph.D. in Business Administration in August, 1997.