Topic Page: Leadership

Definition: Leadership from *The Hutchinson Unabridged Encyclopedia with Atlas and Weather Guide*

Role that involves organizing and motivating others and taking decisions. A leader in a work organization may be an autocratic leader, someone who perhaps listens to advice but ultimately makes decisions on his or her own, or he or she may be a democratic leader, allowing others to participate in the decision-making process.

Summary Article: Leadership from *Encyclopedia of New Venture Management*

Leadership is generally a process whereby a person influences others to accomplish a set of goals or objectives within an organization. Leadership and authority can be confused with each other. Authority describes the assigned power one person has over another; however, having authority does not make someone a leader—it makes him or her a boss. Effective leaders have the ability to cause followers to want to achieve desired outcomes, so the exercise of power becomes less important. Herein lies the art of leadership.

Leadership in new or entrepreneurial ventures may be considered as a special case or subset of leadership in general.

The conditions affecting new ventures may be sufficiently different from those of established businesses to favor individuals with specific leadership traits or styles. A study done in South Africa identified a set of important entrepreneurial characteristics that are distinct from transformational leadership characteristics. The study found a medium degree of positive correlation between high scores on both sets of traits. Another study, of 112 start-up firms housed in business incubators in Taiwan, used the number of patents created as a measure of success. This study found no correlation with leadership style. Team members’ assessments of leaders’ traits of risk taking, innovativeness, and proactiveness correlated with assessments of creativity.

One can reasonably question whether entrepreneurial leadership is distinct or different from leadership in any firm. Warren Bennis has found that there are four traits common to all leaders, including management of attention, meaning, trust, and self-esteem. Bennis also noted that entrepreneurs are far likelier to have business-owning fathers or other relatives. However, Bennis also noted some distinct differences between start-up owners and seasoned managers, including a greater need for autonomy, more creative tendencies, and a higher calculated risk-taking orientation.

Although the differences between entrepreneurial leadership and leadership in general are subtle, both types benefit from the study of trait and process theories of leadership to help explain and identify successful leaders. Traits, which include the leader’s knowledge, skill, physical appearance, and extroversion, for example, have a unilateral effect on followers because traits reside in the leader, and the follower simply reacts to them. Process leadership is generally defined by the relationship developed between the leader and his or her followers. Whereas the processes can be influenced by the leader’s traits, the primary focus is on what the leader does with his or her assets. What processes the leader chooses and how they are used is further influenced by philosophies of leadership, business, and by culture.
A company's human capital cannot be owned, but leaders often overlook the value of human assets, in part because they are not a balance sheet item. Herein lies the art of leadership.

The “Be, Know, Do” model of leadership helps to describe why followers are willing to be guided by leaders. Be describes the character of the leader, Know describes his or her abilities, and Do describes the implementation of the leader’s skills in ways that cause followers to be motivated and the goals and objectives of the organization to be met. Ultimately, leaders are most effective when they have earned the respect of their followers.

Studies have shown that social and emotional intelligence are the cornerstone traits of the best leaders. Perhaps the best way to understand what makes the most effective leaders is to deconstruct the leader’s attributes.

**Traits of Leaders**

Part of the deconstruction of effective leaders relies on the concept of emotional intelligence. Emotional intelligence refers to the capacity to understand and explain emotions, on one hand, and of emotions to enhance thought, on the other. According to Daniel Goleman, the elements of social and emotional intelligence (EI) that are most closely correlated with a leader’s effectiveness include self-awareness, self-regulation, motivation, empathy, and social skills. Self-awareness is a reflective action and describes one’s understanding of how emotions affect actions and decision making. A critical piece of self-awareness includes an accurate self-assessment. Self-regulation refers to the ability to control one’s actions in a positive and effective way; it also includes trustworthiness. Motivation causes one to embrace challenges and enjoy stimulation. Empathy allows one to understand things from other points of view. Finally, social skills enable better communication, listening, and negotiating.

There are four branches to emotional intelligence; perception, facilitation, understanding emotions, and emotional management. The perception and facilitation branches most closely relate to feelings, and the understanding and management branches relate to calculating and planning with information about emotions so that decisions can be made more effectively. As John Mayer and David Caruso pointed out, “findings suggest that people high in EI form strong relations with others and have reliable support networks. Other people come to help these individuals in times of need. By contrast, people low in EI are socially perplexed, and are relatively more prone to drug and alcohol use, and to using aggressive and violent behavior to solve problems.” Furthermore, research is suggesting that leaders high in EI develop stronger teams, communicate better, and build a stronger social fabric. Those low in EI have more problems through their behavior in the workplace.
The leader's ability to use introspection when assessing decisions is an important application. Many studies support the notion that leaders who perform best on emotional intelligence tests are more effective overall and that the need for emotional intelligence becomes even more critical as the leader gains more seniority. In a study that tracked 80 scientists from Berkeley from 1950 to 1980, researchers discovered that those with high emotional intelligence were four times more likely to enjoy success and prestige than were those who had lower emotional intelligence scores and higher IQs.

Emotional intelligence requires a great deal of introspection, or the act of objectively assessing the impact one, as a leader, is having on organizational effectiveness. A person's emotional intelligence can be assessed through testing, and that might be beneficial. Emotional intelligence can also be learned to some degree. Generally, the older a person is, the more emotionally intelligent he or she has become. This finding suggests that emotional intelligence is learned through life experiences. Other findings indicate that courses on improving emotional intelligence can cause both short- and long-term gains.

In business, measuring a leader's emotional intelligence will provide little information regarding the leader's actual effectiveness in a particular organization. Measurements of profitability, customer and employee satisfaction, and public perception are the metrics most useful in that endeavor. However, unless the leader exercises emotional intelligence, the introspection necessary to react to these metrics will be mostly absent.

**Leader Process Philosophy and Goals**

Leaders do not exercise their traits in a vacuum. Leaders are influenced by philosophical choices in the subjects of leadership, business and economics, and culture. Often, an organization's success is measured by its ability to create value for its shareholders. For example, shareholder and stakeholder theories address what should be important for businesses. Shareholder theory espouses that a business's only responsibility is to its shareholders, and therefore increasing profitability is all that matters. In business schools and on Wall Street, the profitability metric has become the overriding standard. Stakeholder theory holds that businesses have a responsibility to all individuals and constituencies that have an interest in the business. These stakeholders will include employees, customers, communities, and governments.

When one subscribes to the stakeholder theory of corporations, one is acknowledging the importance of success metrics beyond profitability. It can also be argued that without good relations among employees, customers, communities, and governments, profitability is harder to attain. Assuming nonproftiability metrics are important, it follows that they must be measured. Within a business, it is easiest to measure employee and customer satisfaction.

Keeping employees satisfied helps organizations thrive. Nearly 70 percent of all operating costs are ultimately attributable to people. Human capital cannot be owned, and therefore it is critical to both lead and manage it wisely. However, considering the power paradox, it is unlikely that many leaders will value human assets, because they are not a balance sheet item, and as the leader advances, she or he tends to become oblivious to why others matter. The same holds true for customer satisfaction. If a leader fails to see things from another's point of view, he or she will lack the ability to understand and respond to customer complaints. These tendencies could be exaggerated in a leader who subscribes to the shareholder philosophy rather than to the stakeholder philosophy, because the application of shareholder theory tends to focus on short-term gain.

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If one were to take the Machiavellian view, the best leaders are those who strive to be great and remarkable through the concealment of their intentions, the seeking of attention, being selectively honest, and ruling through fear. Eastern thought espouses the benefits of just the opposite: modesty and social intelligence.

Two fairly recently evolved theories of leadership have attempted to address focusing on others as the leader’s primary concern. One of these theories is called transformational leadership, and the other is called servant leadership. The primary theorists behind transformational leadership are James Burns, Bruce Avolio, and Bernard Bass. Transformational leadership is defined as the ability to identify necessary changes, create the vision to drive the changes, inspire people to embrace the changes, and execute the changes. Transformational leadership manifests itself in four ways; individualized consideration, intellectual stimulation, inspirational motivation, and idealized influence. Jim Kouzes and Barry Posner elaborated on the transformational type of leadership in their writings on the “leadership challenge.” Their five practices of exemplary leadership include modeling the way, inspiring a shared vision, challenging the process, enabling others to act, and encouraging the heart.

A 2010 study conducted by Daniel J. McCarthy and his colleagues, focusing on exemplary entrepreneurs in Russia over a period of four years, found that their leadership styles were similar to those found in U.S. entrepreneurs. The open transformational style was predominant in two thirds of the leaders studied, and a balanced style was found in another 25 percent. Furthermore, the percentage exhibiting the open style increased over the years 2003 to 2007. It seems that, despite a long history of authoritarian and autocratic leadership in Russia, successful entrepreneurial leaders seldom used that style.

Robert Greenleaf coined the term servant leadership. The primary focus of servant leadership is to serve colleagues, employees, customers, and other stakeholders. In this case, the leader is seen as a humble steward of all organizational resources. Servant leaders exemplify qualities such as empathy, the ability to listen, awareness, persuasion, conceptualization, foresight, stewardship, and community building. Servant leaders practice self-awareness, listening, changing the pyramid, developing colleagues, coaching and not controlling, unleashing the energy and intelligence of others, and foresight. Obvious similarities exist between the concepts of servant leadership and the elements of emotional intelligence, specifically self-awareness, empathy, and social skills.

Jim Collins, author of Good to Great, wrote about his research that identified “level 5 leadership.” He stated that level 5 leaders build greatness through a “paradoxical combination of humility and professional will” and they are at once shy and fearless. The personal humility level 5 leaders exemplify includes modesty, the shunning of public attention, inspiring standards (not charisma) to motivate others, assuring ambitions are directed to the company and not him- or herself, taking personal responsibility for poor results (never blaming other factors), and having an unwavering resolve. Collins noted that often a significant life experience causes leaders to ascend to level 5 leadership. This significant event can be so compelling that the leaders learn that introspection is the key to their ability to withstand problems and overcome them. Level 5 leaders transformed their companies’ performance to a degree not seen in companies run by level 4 leaders. Level 4 leaders tend to offer a compelling vision, and they have the ability to stimulate groups to a higher performance. These abilities correlate with a number of the transformational leadership characteristics. However, the introspective nature of servant leaders and highly emotionally intelligent leaders is missing. The significant differences in outcomes between level 5 and level 4 leaders is that the former are able to sustain great companies.
over long periods of time. Level 4 leaders engender success, but the success is far shorter lived and of a lower level.

The concepts of Burns, Bass, and Avolio's transformational leadership, Kouzes and Posner's leadership challenge, and Collin's level 5 leadership have many commonalities. The leaders are outwardly, rather than inwardly, focused as pertains to outcomes as a result of their efforts. This outward focus incorporates employees, the business itself, and colleagues and customers. Transformational leadership emphasizes the leader's role as the charismatic and visionary person at the helm. Collins challenges this concept, adding that the best leaders are humble and shun the spotlight. However, in all theories, the leaders are compelled to inspire, motivate, develop employees, and encourage greatness in others. Additionally, great leaders are introspective as it pertains to how they apply their skills. They continually reassess their motives and the effects they have on others.

Unfortunately, once leaders have earned respect and gained power, their effectiveness in leading often becomes compromised. Dacher Keltner, a professor at the University of California, Berkeley, has noted that “the skills most important to obtaining power and leading effectively are the very skills that deteriorate once we have power.” This is referred to as the power paradox. Keltner points out that once leaders are in a position of power, they “tend to behave more selfishly, impulsively, and aggressively, and have a harder time seeing the world from other people's point of view.” The power paradox explains that the very attainment of greater leadership and power tend to cause one's effectiveness to decline. The best way for a leader to prevent the power paradox from having this effect is to employ emotional and social intelligence.

The lesson for entrepreneurs is to be aware that for their businesses to grow and thrive, they cannot simply be the technicians (see Michael Gerber's The E-Myth) producing the good or service of the enterprise. As employees and customers are added, the complexity of the business intensifies. The entrepreneur needs to take on a professional manager's role or hire someone to fill that role. This professional manager will likely be at least one of the leaders in the organization, and the person chosen will have power. He or she will be chosen based on personal and professional attributes that make him or her ideal for the position, but once that person occupies the power position, the attributes will likely be diminished. Applying the concepts of emotional and social intelligence, servant leadership, transformational leadership, and level 5 leadership in the hiring of the manager/leader will help in the selection of the right person for the position. If the founder adopts the role, he or she will need to be aware of the social and emotional intelligence attributes necessary to be an effective leader, and practice applying them.

See also
Entrepreneurial Orientation, Entrepreneurship Education: Graduate Programs, Goal Setting, Leadership: Training and Development, Leadership: Transformational, Team Composition, Women's Entrepreneurship

Further Readings


https://search.credoreference.com/content/topic/leadership
• Dencker, John C.; Gruber, Marc; Shah, Sonali “Individual and Opportunity Factors Influencing Job Creation in New Firms.” Academy of Management Journal.

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