Linking leadership style to firm performance: the mediating effect of the learning orientation

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1. Introduction

Turkey has undergone a series of recent crises in 1994, 1999 and 2001. These developments have affected heavily not only the economic structure of Turkey but also business firms. Therefore, firms’ executives had to adjust their strategies in order to manage crises (Eren, Zehir and Özşahin, 2004). Firms that manage the crises successfully survived and become high performing organizations of Turkey. This high performing organization which survived in crises has attracted attention of so many researchers and characteristics of those firms began to be surveyed. In this context this survey is being started to examine and reveal the characteristics of those high performing firms. Peters and Waterman’s study of “In Search of Excellence” focusing on the high performing organizations in different industries, gave arise the concept of “peak performing organization” and became source of inspiration for many studies in strategic management field. In this direction, many surveys examining the source of performance of high performing organizations indicate the importance of leadership style in firm performance (Galbraith and Lawler, 1993; Halal, 1996; Hamel, 1996; Nonaka and Takeuchi, 1996; Porter, 1996; Prahalad and Hamel, 1991; Senge, 1990; Collins, 2002). Jim Collins’s “Good to Great” is another study examining the characteristics of high performing organizations. Collins maps out three stages, each with two key concepts as the heart of Good to Great. Those concepts are Level 5 Leadership, First Who... Then What, Confront the Brutal Facts, The Hedgehog Concept, A Culture of Discipline, Technology Accelerators (Collins, 2002). Leadership, which is called the premise of the flywheel of “Good to Great” by Collins, has been subject to so many studies examining the high performing organizations in literature. In this survey searching the sources of high performance in high performing organizations of Turkey, leadership style is suggested as main premise that leads to high performance.

Besides leadership style, cultural competitiveness is emphasized as another high performing factor in literature. Firms that manage to be “high performing organizations” rather than “survivor” in a more competitive environment, have the cultural competitiveness. Hult, Snow and Kandemir (2003) define cultural competitiveness as “the degree to which an organization is predisposed to detect and fill gaps between what the market desires and what is currently offered” and argue that four culture-based factors –entrepreneurial orientation, market orientation, learning orientation and innovativeness- collectively give rise to an organization’s cultural competitiveness. The complex constellation of those four factors serves as a guidepost to managers as they seek to create competitive advantage for their firms in marketplace (Hult et al., 2003). Within the framework of cultural competitiveness, our study focuses on the notion that learning orientation as one of the cultural based elements that effect firm performance mediates the relationship between leadership style and firm performance. In this context, the study begins by a literature review of leadership style, learning orientation and firm performance, then will go on to development of hypotheses. Research methodology, analyses results and research model will take place at second section. The results of the analyses will be discussed and recommendation will be provided for managers and academicians at the last section.

2. Literature Review And Hypotheses

2.1. Firm Performance

Venkatraman and Ramanujam (1986) suggest a two-dimensional classification scheme for assessment of performance. On the one hand, they differentiate financial and operational indicators, and on the other hand, they distinguish between primary and secondary source of information. While financial measures are related to accounting
measures and economic performance (e.g. profit, sales), operational measures are related to operational success factors that might lead to financial performance like customer satisfaction, quality, market share or new product development (Venkatraman, and Ramanujam, 1986). From the point of the view of the source of information, data for primary measures is collected from organization while data for secondary measures are collected from external or derivative databases. Another classification distinguishes between objective and subjective measures. Objective measures refer to performance indicators impartially quantified. They are usually financial indicators obtained directly from organizations through secondary sources. On the other hand subjective measures refer to the judgmental assessment of internal or external respondents. They usually cover both financial and operational/commercial indicators (Gonzalez-Benito, and Gonzalez-Benito, 2005). Performance measures used in surveys may differ up to the objective and characteristics of the survey. Subjective measures based on the executives’ evaluations and judgments about firm’s profitability, sales, market share, customer satisfaction and so on are frequently used in management and organizational culture related surveys (Garg, Walters, and Priem, 2003). Gonzalez-Benito and Gonzalez-Benito (2005) suggest subjective measures in marketing and management field because subjective approach facilitates the measurement of complex dimension of performance. Subjective measures also facilitates cross sectional analysis through sectors and markets because performance can be quantified in comparison to objectives or competitors. In the direction of the similar views in literature, subjective measures are used in this survey which examining the effect of leadership (as a managerial factor) and learning orientation (as a cultural factor) on firm performance. Data related to the performance are obtained directly from the executives of the firms through the questionnaires, which means primary source data are used in that survey.

2.2. Learning Orientation

Learning orientation, as the source of the competitive advantage and a key to future organizational success, has been subject of range of disciplines including psychology (Nonaka and Takeuchi, 1996; Schein, 1993; Dickson, 1992), management (Stata, 1989; Huber, 1991; Argyris and Schon, 1978; Senge 1990), sociology and organizational theory (Coopey, 1996; Law, 1994), marketing (Slater and Narver, 1995; Baker and Sinkula, 1999; Franwick, Ward, Hutt, and Reingen, 1994), and strategic management (Hamel and Prahalad, 1993; Dickson, 1992; Pennings, Barkema, and Douma, 1994). Values that are routinely associated with learning orientation revolve around (1) commitment to learning, (2) open-mindedness, and (3) shared vision.

Commitment to Learning: It refers to the extent to which a firm places value on learning (Sackmann, 1991). Commitment to learning concerns the value placed on learning activities within an organization and the extent to which this value is viewed as axiomatic for the firm (Senge, Roberts, Ross, Smith, and Kleiner, 1994; Paparoidamis, 2005).

2.3. Leadership

Yukl (2002) also defines the leadership as “the process of influencing others and agree about what needs to be done and how it can be done effectively, and the process of facilitating individual and collective efforts to accomplish the shared objectives” and propose a three dimension-leadership model: task-oriented leadership, relations-oriented leadership and change oriented leadership dimensions. The “change oriented leadership” dimension shares more common characteristics with charismatic and transformational leadership behaviors. Parallel to behavioral leadership approach and Yukl’s leadership model, in this study, leadership is examined as a “process” and “shared role” throughout the organization rather than characteristics of a person, and three types of leadership behavior –task oriented leadership behavior, relations oriented leadership behavior, change oriented leadership behavior- are under taken.

Task-Oriented Leadership (TOL): This type of behavior is primarily concerned with accomplishing the task, utilizing personnel and resources efficiently, and maintaining orderly reliable operations. Three specific types of task-oriented behaviors are (1) planning, (2) clarifying, and (3) monitoring (Yukl, 2002).

H1: Learning orientation mediates the relationship between task-oriented leadership and firm performance.
Relations-Oriented Leadership (ROL): This type of behavior is primarily concerned with improving relationships and helping people, increasing cooperation and teamwork, increasing subordinate job satisfaction, and building identification with the organization. Three specific types of relations-oriented behaviors are (1) supporting, (2) developing, and (3) recognizing [16].

H2: *Learning orientation mediates the relationship between relations-oriented leadership and firm performance.*

Change-Oriented Leadership (COL): This type of behavior is primarily concerned with improving strategic decisions; adapting to change in the environment; increasing flexibility and innovation; making major changes in processes, products, or services; and gaining commitment to the changes (Yukl, 2002). Specific types of change-oriented behaviors can be classified as (1) influencing organizational culture, (2) developing a vision, (3) implementing change, (4) increasing innovation and learning (Yukl, 2002).

H3: *Learning orientation mediates the relationship between change-oriented leadership and firm performance.*

3. Methodology

3.1. Research Goal

In this survey we aim to identify the mediating effect of learning orientation on the relationship between leadership style and firm performance. To test the propositions, a field survey using questionnaires will be conducted. The survey of this study will be conducted on middle and senior managers of high performing firms operating in manufacturing industry in Turkey, between the years of 2008-2010. Firms fulfilling the criteria that (1) being indicated in the list of “Fortune 1000 of Turkey” between the years of 1997-2007, and (2) not being undergone a loss for those 10 years, are indexed as high performing firms. 435 firms that meet those two requirements were contacted via email or phone and informed about the research. Data obtained from questionnaires will be analyzed through the SPSS statistical packet program and three proposed relations will be tested through regression analyses.

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