LEADERSHIP AND ORGANISATION PERFORMANCE

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Leadership—Performance Debate

Conventional views of organisational leadership have generally assumed that leaders have a significant and possibly crucial impact on the performance of the organisations they head (Borgatta, 1954; Fleishman, 1965; Fleishman and Harris, 1962; Dansereau and Haga, 1975; Delbecqu, 1965; Maier, 1962; Shaw and Blum, 1966; Weiner and Mahoney, 1981 and Thomas, 1988), but this 'individualistic' view has been increasingly questioned by 'contextualists', who emphasize the constraints that are placed on leaders by situational factors (Hall, 1977; Pfeffer and Salancik, 1978; Lubatkin and Chung, 1985). Although there have been few studies that have a direct bearing on this important issue, research on sports organisations (Grusky, 1963; Gamson and Scotch, 1964; Eitzn and Yetman, 1972, Allen.Panian, and Lotz, 1979), governmental institutions (Salancik and Pfeffer, 1977), and industrial organisations (Lieberson and O'Connor, 1972; Samuelson, Galbraith, and McGuire, 1985) has tended to support the Contextualist position. In practice, however, the contextualist argument has rested heavily on the findings of just one major study; that of Lieberson and O'Connor (1972), which has become the most commonly cited evidence of the 'inertial' organisation (hambrick and Mason, 1984) and which is widely regarded as the major counterpoint to the proposition that leadership makes a difference.

In view of this Study's 'startling' implications for those who 'really believe in leadersip' (Hall, 1977), it is perhaps not surprising that it has been subjected to substantial criticism. Predominantly this has focussed on Lieberson and O'Connor's mehodology, which has been held by some to be inadequate and insufficient to support the contention, that leaders don't make a difference. Their contribution to leadership research therefore remains controversial.

This paper aims to examine the impact of leadership on organisation performance on the basis of data supplied by two electronic companies (NELCO and ICIM) pursuing growth in high-tech areas. Companies have been selected on the basis of purposive sampling to avoid the influence of contextual variables-size, age, industry and technology. The brief history of the sample companies are given below.

ICIM

ICIM maintained first place in India's computer industry upto 1985. The main strenghts of the company were stable tenure of CEO, result-oriented employees, proven marketability, after sales, service skills and excellent market reputation. In early 1985 with the exist ,of Premdasani (who had served a full time managing director), ICIM management problems started. He was succeeded by Vasant Kher, who did no stay for long. William Jackson from ICI was at the helm for the short while until Shyamal Ghosh took over in May 1986 but he also left in December 1987. Since then Mr. David Beesley, Vice-President, South Asia, is managing the company with a committee consisting of its Chairman Mantosh Sondhi and Directors A.R. Wadia and P.K. Choksey.

NELCO

NELCO's position is totally different from ICIM before 1985. Nelco was without its CEO for nearly 15 months. Company was full of problems : poor products with 80% rejects; no clear focus at the top; serious labour problems : declining profitability : decreasing marketing share and proliferation of new ventures at the expense of primary business. The new CEO was brought in after a long search in March 1986. In last three years, Nelco has turned the corner and has cleared up all accumulated losses in one stroke in 1987. During 1988, the company has come out with encouraging results. Sales have reported a 43% rise and operating profits have improved by 35%. The bottom line has grown 1.5 times and EPS stands Rs. 20.36. The consumer product group that markets 'Black Diamond' colour as well as black and white TV sets has significantly contributed towards Nelco's improved performance. For second year, the TV group has recorded an impressive growth of 60%. Telecommunication and computer products group have also registered substantial growth.

Although both of them operate in the same business environment, Nelco has performed much better than ICIM in last three years as shown in Table 1.

Table 1
Performance Indicators of Nelco and ICIM (Lacs)

Companies	NELCO			ICIM		
Performance Indicaors	1987	1987	1988	1986	1987	1988
Capital employed	—	6021	7644	—	5248	5002
Networth	529	939	1079	1077	1327	737
Net Sales	5359	5796	8444	4460	2452	1726
GP	340	539	761	706	472	–126
PBT	– 27	74	113	194	81	– 588
PAT	– 27	74	113	95	38	– 588
Reserve	– 27	74	113	55	43	– 588
EPS (Rs.)	– 8	17	0	4	01.	– 20.
BV (Rs.)	150	152	160	40	32	18

Source : Annual Reports

Some may argue that Nelco has been luckier than ICIM. Luck, of course, plays an important role in business. But before we subscribe to this view, let us look at the differences in managerial characteristics in their performance. Table 2 shows the essential differences in the managerial practices initiated and followed up by CEOs in their concerned organisations in last three years.

Table 2
Differences in Managerial Practices

FOCUS	NELCO	ICIM
Strategies	Diversification into related areas	Brand Marketing of Borrowed products
	Strategic Planning	Financial Planning
Operations	Manufacturing efficiency	Strict cost controls
	Decenralised operations	Centralised controls
Human resources	Management Development system	Lack of management development systems.
	Promotion from within	Promotion from outside

First, Nelco expanded into businesses related to its core business while ICIM introuduced new products like PC2, Mini 101/400, DRS, Line–Writer and Mainframe Series–39. The former basically remained in the business of consumer products, industrial systems and office equipment whereas the later lost its focus. Because Nelco focused on its core business, its managers could master the knowledge about the business they were in -the products, customer, competition and technology. Nelco achieved a synergetic effect by which its business units could complement each other's strengths as well as compensate for limitations. ICIM, on the other hand, lost the possibility of a synergetic effect by spreading its resources into borrowed products.

Second, Nelco used strategic planning effecively. Stretegic planning is a method of planning that studies environmental demands on business so that the company can position its products in the right market at the right time. Since Nelco's CEO first made himself familiar with its producs, technology, people and market, and hence he could do the job well. ICIM, on the other hand, primarily relied on financial planning and control to manage investment projects without its managers really understanding the business they were in 1988, ICIM was able to sell two-just two S-39 Mainframes, its much vaunted high-tech attributed notwithstanding. That was barely 1% of ICIM's installed capacity of 125 computers per annum.

Third, Nelco achieved operational efficiency through improved manufacturing technology, whereas ICIM attempted to cut-down operational costs by reducing expenditures. The Nelco apprach reduces production costs through productivity increases, the ICIM tactic tends to cut those expenditures needed to improve productivity. An increase in productivity has long term benefits on corporate performance whereas cuts in productivity related expenditure can cripple a firms corporate health well into the future.

Fourth, Nelco decentralised managerial decisions so that operating managers could manage their own units as if these units were independent, whereas ICIM imposed centralised controls over its operating units. At Nelco, even less profitable units were encouraged as long as they had potential for becoming first or second in their prospective markets within five years. At ICIM, on the other hand, financial controls were imposed on a short term basis.

Fifth, Nelco, promoted managers from within whereas ICIM hired from outside. The up through-the-ranks system of promotion at Nelco encouraged managers to stay longer and to grow with the company. Such a system also helped managers to acquire knowledge about the company, product, market, technology, people and inner working relationships. At ICIM, the tenure of executives was relatively brief, and important expertise did not develop as a result.

Sixth, Nelco had excellent managerial training and development programmes and was operating its own management training institute. Nelco managers were given opportunities to move-up-through succeeding levels of responsibility at various divisions and different levels of management. Nelco has been a training ground for managers for other companies. ICIM lacked any such development efforts.

Finally, in Nelco, the CEO typically considered product innovations as an important source of corporate growth than expansions through merger and acquisition. He was directly involved in all activities fostering company growth. He used to spend much of his time in formulating goals and implementing plans, including the selection of personnel to work on a particular task. On the other hand, ICIM's CEO indicated low personal involvement in the supervision of internal growth strategy. Though he participated to some extent in establishing financial goals and budgets, but delegated most product development efforts to divisional management. The allocation of investment funds was central to his job. The majority of his time was devoted to business planning and financial policy. He spent considerable time in meeting with bankers, investment analysts and prospective business partners or merger candidates.

Conclusion

Taken as a whole, the limited evidence that is available on the leader performance issue points to two general conclusions. First, leader differences do account for performance variations within firms to a substantial degree and second, these impacts are generally insufficient to outweight the inbuilt differences among firms that largely account for performance variations among firms. This does not mean that causal inferences can be imputed directly to the observed relationship between leadership and performance. Other factors may be associated with changes in CEO that are of greater significance to performance than CEO change itself. Most obviously, defining leadership period solely in terms of the period of office of the CEO is far from ideal, but it is difficult to justify further exploration of important issues such as this unless it is acknowledged that leaders do matter.

Finally, it is evident that it will require very considerable additional research before we can offer general assesment of the impact of leadership on organisational performance. Becuase there are many potential performance measures that could be related to leader differences, such as those suggested by Campbell (1977), it may be some time before this assessment is possible. Irrespective of the theoretical point of view that is adopted, this will continue to be a valid and important issue for both organisation theory and practice.

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