LEADERSHIP STYLE, CLIMATE, COMMITMENT AND CORPORATE PERFORMANCE

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Abstract

The success of a company is dependent on its leader, especially on her or his leadership style, and commitment. In addition, organizational learning climate might have an influence on its performance. This study attempts to examine the influence of leadership dimensions, affective commitment and organizational learning climate on corporate performance. In particular, this study aims to find out which of variables contribute significantly to the corporate effectiveness. This study finds out that affective commitment and executor (leadership style) contribute significantly to the corporate performance. In spite of the fact that learning climate is not correlated significantly with corporate performance, it still plays an important role as it is significantly correlated with leadership dimensions and affective commitment. The samples in this study are experienced senior managers hold an MBA degree; therefore, the generalization of the findings must be carefully taken.

Keywords : affective commitment, learning climate, leadership dimensions.

1. INTRODUCTION

The global tough competition in business requires companies to be always ready to change and be well managed in order to survive, grow and sustain. The success of a company indirectly and directly depends on the competency of its leaders to manage the company. It is obvious that a leader has an essential role in directing his or her subordinates to achieve the goals. Facts show that many good leaders bring companies to be successful. In companies, leaders such as senior managers or directors are responsible for directing their subordinates to achieve the corporate goals. Great leaders such as Jack Welsh from GE and Gerstner from IBM were successful to make a drastic change to save the companies from a high decline in their revenue. The question is why some leaders are successful and some are not. The success of a leader is related to and measured based on the extent to which the targeted performance has been achieved. In other words, corporate performance is a variable that has to be measured. Relevant independent variables which might have an impact on corporate performance among others are organizational commitment, learning climate and leadership style. The way how a person manages their people or subordinates is called *leadership style*. There are many concepts of leadership, however, this study will use a leadership concept introduced by Ulrich as it is considered a recent leadership concept which is relevant to the purpose of this study. Ulrich et al. (2008) proposed five “leadership styles or dimensions” namely *strategist*, *executor*, *talent manager*, *human capital developer*, and personal *proficiency*. This study attempts identify a leadership style which has the highest relationship with corporate performance. Apart from leadership styles, organizational learning climate might have a strong impact on corporate performance as it enhances employees including leaders to learn one another. As a consequence, this study includes learning climate as an independent variable. Managers’ affective commitment plays an important role in achieving corporate performance. This study is aimed at finding out the impact of affective commitment, leadership and learning climate on the corporate performance.

2. THEORETICAL REVIEW

A. Corporate Effectiveness

Corporate effectiveness or Organizational effectiveness which is also known as organizational performance can be simply defined as what an organization have achieved in line with its stated target, such as profit, revenue, customer satisfaction and employee satisfaction. Gordon and Cummins (1979) propose profitability and organizational growth to measure companies' success whilst Kaplan & Norton (2004) introduce a *balanced score card* (BSC) to measure the organization performance which is based on four perspectives such as financial, customer, internal business process, learning and growth. Maltz, et al. (2003) argued that there are five corporate performance indexes namely financial performance, market/customer, process, people development and future. According to Germain et a). (2001) there are two forms of performance indicators: a) internal performance refers to financial measurements, such as costs, profit, and revenue. b). benchmarked performance refers to a benchmark or comparison with other leader/ similar companies. Reviewing some of the approaches, the most common measures used in most companies are *financial* indicators such as revenue, growth and profitability.

In addition, corporate performance can be measured based on customer satisfaction index and the general perception of the corporate performance. Customer satisfaction refers to the extent to which customer perception towards what they expect to receive (products or services); whilst general corporate performance refers to the extent to which managers' perceive the corporate financial performance such as profit, growth and revenue in comparison with the competitors' general corporate performance.

B. Leadership theories at glance

There are many leadership theories such as the trait theory, behavior theory, contingency theory, and transformational theory. Trait theory focuses on finding out the relevant traits that make good leaders. Traits like intellectual intelligence, self confidence and achievement motivation are believed to make good leaders. However, as there are also many people who have those traits but not good leaders' as a result this theory lacks of validity. Different from trait theory, Blake and Mouton (1985) argue that the behavioral leadership theory identifies leadership style based on two extreme axes, namely relationship (concern for people) versus task orientation (concern for production). To support this theory, Blake and Mouton (1985) propose a managerial grid to reflect the two dimensions, which later Blake, Mouton and McCanse developed a leadership grid as follows:

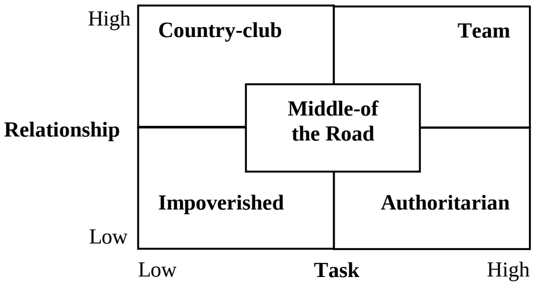

Figure 1. Managerial Grid Model Blake, Mouton & McCanse

Explanation:

1) Country-club leader (the relationship orientation is high but the task orientation is low)
2) Authority compliance leader (the task orientation is high but the relationship orientation is low)
3) Team management leader (both the task and relationship orientation are high)
4) Middle-of-Road leader (both the task and relationship orientation are in medium level)
5) Impoverished leader (both the task and relationship orientation are low)

Many experts criticize this theory on its inflexibility as situational factors are not considered. To respond to the criticisms, a contingency theory appears to cover its weaknesses. One of the well-known contingency leadership theories is situational leadership introduced by Hersey and Blanchard (1996). They argue that the effective leadership style is dependent on the maturity of the followers or subordinates. Maturity refers to the followers' ability and willingness to do as required. As every follower has different maturity, a leader therefore must be able to identify his or her followers' maturity in order to apply an effective leadership style. If the followers' maturity is high because they are able and willing to do as required, then *a delegating leadership style* is appropriate. On the other hand, if the followers' maturity is low then a leader has to apply *directive leadership style*.

Apart from its interesting concept, this approach does not seem to focus on the mission and vision of the company in respond to the environment; therefore transformational leadership theory is more relevant as it focuses the organizational mission, vision and goals. According to this leadership theory which is introduced by Bass and Avioli (1994), a leader must create a proactive vision, communicate and implement it in order that all members of the organization can achieve the corporate goals. There are many other theories apart from those theories. However, the most recent and relevant ones is the leader code theory introduced by Ulrich et al. (2008). This theory is directly and indirectly built based on the practical business experiences and leadership concepts. Based on a thorough study, Ulrich et al. (2008) introduced a leadership dimension/style which is relevant to be applied in the management context. They introduce five rules of leadership or "leadership dimensions / styles", which are based on two axes namely a. the individual vs organizational. The *individual* refers to the orientation of a leader towards the members while *organizational* refers to the orientation of a leader towards the organization goals. b. near-term operational vs long-term strategic. This dimension refers to the time orientation of certain organized activities. Based on the two axes, five rules and leadership dimensions (Ulrich, et al., 2008) are created. The five rules which are reflected the leadership dimensions are as follows:

- Rule 1: *shape the future* is reflected by the *strategist* style or dimension. This style requires that a leader must have a vision, be able to predict and create the future. Leaders must know what the organization needs to succeed and where the organization has to be brought to face the future with success.
- Rule 2: *make things happen* is reflected by the *executor* style or dimension. This style or dimension requires that a leader must be able to make things happen. Thus, he has to be able to implement and execute the strategic planning they have made.
- Rule 3: *engage today's talent* is reflected by *talent manager's* dimension This style requires that a leader must know exactly what competencies are needed by the organization to be successful. In addition, a leader is required to attract talented candidates to work for the company, develop, make them engaged, and eventually enhance them to deliver their best performance.
- Rule 4: *build the next generation* is reflected by *human capital developer's* dimension. This style or dimension requires that a leader prepares talented for long term organizational goals. Leaders have to prepare people for the next generation in order that the organization can sustain and even grow. Therefore, human developer leaders are those who focus on building the next generation talent.
- Rule 5: *invest in yourself* is reflected by the dimension of *personal proficiency*. This style requires that a leader must excel in his or her personal proficiency in order to have credibility. Leaders should keep on learning and manage themselves well.

All the leadership styles reflected by the five rules can be illustrated as follows:

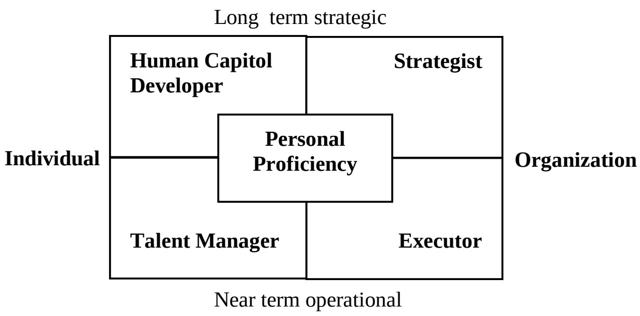

Figure 2. Ulrich Leadership Dimensions
(Source: Ulrich, 2008)

C. Organizational Commitment

Organizational commitment is relevant to be included in the leadership issue and research as it may have a significant impact on leadership effectiveness. It is obvious that if all members are committed to the company they are working for; they will deliver their best performance. According to Meyer and Herscovitch (2001: 301), commitment *is a force that binds an individual to a course of action of relevance to one or more targets*.

Research articles on this topic can be traced and found out in many journals. In an organizational context, commitment can simply defined as an employee's psychological engagement to an organization. It is obvious that a committed leader will work hard for the sake of achieving the company's goals. Meyer and Allen (1987) argue that there are three types of commitment, namely

- Affective commitment. This commitment is driven by the organization values, mission, and vision. In other words, an employee is driven by the vision, mission and values of the company.
- Continuance commitment. This commitment is driven by a beneficial calculation. Employees calculate which is more beneficial to remain in the company or to leave the company for another better job.
- Normative commitment. This commitment is driven by employees' emotional reasons to work for a company.

Jaros (2007: 7) describes *affective commitment is based on emotional ties the employee develops with the organization primarily via positive work experiences, normative commitment reflects commitment based on perceived obligation towards the organization and continuance commitment reflects commitment based on the perceived costs, both economic and social, of leaving the organization.* To explain further about affective commitment, Mowday, Porter & Steers (1982: 27) argue that *affective commitment is a strong belief in and acceptance of the organizational goals and values, a willingness to exert considerable effort on behalf of the organization and a strong desire to maintain membership in the organization.* Synthesizing Meyer and Allen's commitment concept, Fu, Bohlander & Jones (2009) conclude that affective commitment is related with individual values, which in this study means that it is related with the managers' values. Patrick & Sonia (2012) argue that *affective commitment is related with the positive emotional attachment of the employees to the organization*. Therefore, managers with high affective commitment will address themselves with the vision, mission and goals of the company; they have a strong sense of belonging and desire to be a part of the company. Based on a thorough conceptual review, affective commitment is concluded to have a close relationship with the learning climate, leadership style and corporate performance. In this study, affective commitment is chosen as an independent variable which is assumed to have a significant correlation with the other variables; in particular, with the corporate performance.

D. Learning Climate

Burton and Obel (1998) argue that an organization climate refers to a situation which is related to organizational members' thoughts, feelings and behavior. Tagiuri (1968) in Furham and Gunter (1993:115) argues that organizational climate is *a relatively enduring quality of the internal environment of an organization that (a) is experienced by its members, (b) influences their behavior, and (c) can be described in terms of the values of a particular set of characteristics (or attributes) of the organization.* An organizational climate is a relatively enduring quality of an organization perceived and experienced by its members who has a significant influence on their behavior. Organizational climate is different from organizational culture; *Schein* (2004:17) defines organizational culture as a *pattern of basic assumptions that was learned by a group as it solved its problems of external adaptation and internal integration, that has worked well enough to be considered valid and, therefore, to be ought to new members as the correct way to perceive, think, and feel in relation to those problems.*

Schneider & Reichers (1990:22) argue that organizational climate as *shared perception of the way things are around here; it is shared perceptions of organizational policies, practices, and procedures, both formal and informal*. An organizational learning climate can be simply defined as a relatively enduring employees' shared perception towards the learning practices in an organization which enhances employees to share their knowledge, skills and information. In other word, organizational with learning climate will encourage its members to share their knowledge with other members which eventually will affect the organizational performance. Therefore, learning climate has to be considered and included in research which is related to the corporate performance. Organizational dimensions which may affect this learning climate among others are leadership style and organizational commitment.

E. The relationships among the variables

Facts show that affectively committed leaders are motivated to work hard and direct all their subordinates to achieve their working target. Leaders who apply high degree of all the leadership dimensions will achieve high corporate performance. However, it is also interesting to identify the leadership dimension which has the strongest positive impact on corporate performance.

In addition to affective commitment and leadership styles, learning climate plays an important role in supporting leaders to motivate, inspire and lead subordinates to accomplish their tasks. As a consequence, a company with strong learning climate which is managed by one who has an effective leadership style and high affective commitment will result in high corporate performance. This study endeavors identifying the relationships between learning climate, commitment, leadership style and corporate performance. Based on the theoretical review, some hypotheses can be formulated as follows:

- There is a significant correlation between affective commitment and corporate performance.
- There is a significant correlation between leadership and corporate performance.
- There is a significant correlation between learning climate and corporate performance.
- There is a significant correlation between affective commitment and Learning climate.
- There is a significant correlation between Learning climate and leadership.
- There is a significant correlation between affective commitment and leadership.

In addition to the six hypotheses, this study tries to identify the variables namely leadership styles, affective commitment and learning climate which have a significant influence on the corporate performances.

3. RESEARCH METHOD

This study is aimed at identifying which variables (affective commitment, learning climate, and leadership) have a significance influence on the corporate performance. At the same time, this study tries to find out the correlation among the mentioned d variables.

A. Sample

Senior managers with MBA degree with more than ten years working experience in big size companies were taken as samples by using a purposively random sampling. Forty questionnaires were distributed to the samples but only thirty six was received and only thirty four could be analyzed as the two others were not completely filled in. The respondents' average working experience was twelve years. All respondents are working for companies which employ more than 200 employees.

B. Measures

The instruments in this study use a 5-point Likert-type scale; the instruments used are *a). Affective commitment*. It refers to the extent to which managers are emotionally engaged with the company's mission, vision and values. Seven items are used to measure this contruct of which alpha cronbach is 0.86. *b). Learning climate.* It refers to the degree to which managers perceive the company enhances knowledge sharing among the employees. This measurement was inspired and designed based on Aydin & Ceyland's instrument (2009). Seven items used to measure this construct of which alpha cronbach is 0.87. c). *Leadership style.* It refers to extent to which managers apply the five dimensions of behavior indicators. There are five dimensions as follows Strategist (cronbach alpha = 0.70), Talent Management (cronbach alpha = 0.84), Human Capital (cronbach alpha = 0.86), and Proficiency (alpha cronbach = 0.77). The sum of the five leadership dimensions' score indicates the leadership construct; its alpha cronbach is 0.86. *d). Corporate Performance.* This refers to extent to which the corporate performance is achieved. Five items are used to measure this construct of which alpha cronbach is 0.87.

C. Statistical Analysis

Data were analyzed by using correlation analysis and multiple liner regression through the SPSS package. In addition, a descriptive statistical analysis was applied.

4. RESULTS

A. Data Analysis & Results

Table 2 indicates that affective commitment is correlated with corporate performance and leadership dimensions; managers has to apply high leadership behavior dimensions and be affectively committed as well for both variables are correlated with corporate performance. It is found out that learning climate does not have a significant correlation with corporate performance. However, as learning climate correlates significantly with leadership dimension, learning climate still plays an important role, therefore it must be enhanced. Based on the findings, it is obvious that the role of affective commitment, leadership dimensions and learning climate are essential; therefore all the mentioned variables have to be well managed.

Table 1. The Result of Hypotheses Testing

There is a	Results	
significant correlation between affective commitment and corporate performance.	supported	0.463**
significant correlation between leadership and corporate performance.	supported	0.455**
significant correlation between learning climate and corporate performance.	not supported	0.34
significant correlation between affective commitment and Learning climate.	not supported	0.31
significant correlation between Learning climate and leadership.	supported	0.704**
significant correlation between affective commitment and leadership.	supported	0.357*

Applying a step-wise multi linier regression analysis, it is found out that affective commitment and executor (leadership dimension) contribute around 30 % to the corporate performance. Thus, affective commitment and executor have a significant contribution to the corporate performance [adjusted squared R = 0.298, sig. 0.002].

B. Results of Descriptive Analysis

Table 3 indicates that the mean scores of each variables (learning, affective commitment, corporate performance as well as leadership style) are relatively high. The score of affective commitment of the senior managers is relatively high (3.945). Out of the five leadership dimensions, *personal proficiency* has the highest score; this might indicate that managers are aware of the importance to equip them with relevant competence.

Table 2. The Descriptive Statistics

Variables	Means	SD
Learning climate	3.945	0.663
Affective commitment	3.962	0.599
Corporate performance	3.788	0.641
Leadership Style		
Strategist	4.286	0.537
Executor	4.205	0.455
Talent manager	4.182	0.528
Human capital	4.170	0.550
Proficiency	4.458	0.414
	4.260	0.402

In addition to these results, it is found out that each of the three leadership dimensions (talent management, human capital and executor) have a significant correlation with corporate performance (respectively as follows 0.42*, 0.37* and 0.48**). This correlation coefficient indicates that the leadership dimensions especially *human capital developer*, *talent manager* and *executor* must be well developed as they have a significant correlation with the corporate performance. Affective commitment must also be well encouraged because it has a positive correlation with the corporate performance.

5. CONCLUSION

This study finds out that leadership dimension especially *the executor* and *affective commitment* play a very important role in contributing the corporate performance. Therefore, both variables have to be effectively developed in order to result in high the corporate performance. Although learning climate does not directly contribute to the corporate performance, it is still required to be enhanced as it has a positive correlation with affective commitment and leadership. In general, all the leadership styles have to be improved in particular the *executor* style. Eventually, samples used are not big in number and have very specific characteristics; therefore, the results of this study have to be carefully generalized.

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