

The Effects of Chief Executive Officers' Leadership on Primary Stakeholder Interests: A Review

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Abstract

Purpose: This paper reviews previous research on the effect of chief executive officer (CEO) leadership on three primary organizational stakeholder interests.

Design/methodology/approach: – A number of scholarly articles are retrieved using two keywords - chief executive officers and organizational performance.

Findings: The review suggests that the effects of CEO leadership on the three main stakeholders' interests appear to be not equally explored. The effects on capital and labor market have received a lot of attention among researchers, but studies investigating the CEO leadership effects on product.

Practical implications: In essence, the studies of CEO leadership effect on three main stakeholders appear to be not equally explored. Little is known about whether or not customers value CEO leadership in patronizing products/services of an organization.

Originality/value: Appealing organizational leaders is an element contributing to corporate reputation or corporate brand image (CBI), which is typically assessed by multiple stakeholders. However, appealing leaders have not been clearly defined in CBI research.

Keywords: Effects, Leadership, Organization, Performance

Paper Type: Literature Review

Introduction

Chief Executive Officers (CEOs) represents leadership "of" an organization (Boal and Hooijberg, 2001; Hunt, 2004). Research works investigating their leadership fall into the scope of strategic leadership (Finkelstein et al; 2009). Strategic leadership theory "contends that top managers' values, cognitions, and personalities affect their field of vision, their selective perception of information and their interpretation of information" (Cannella and Monroe, 1997, p. 230). This leadership "connotes management of overall enterprise... and implies substantive decision making responsibilities, beyond the interpersonal and relational aspects usually associated with leadership (in organizations)" (Finkelstein *et al.*, 2009, p. 4) and is characterized as "a person's ability to anticipate, envision, maintain flexibility, think strategically, and work with others to initiate changes that will create a viable future for the organization" (Ireland and Hitt, 2005, p. 63). This notion of leadership has six components: determining a firm's purpose or vision, exploiting and maintaining core competencies, developing human capital, sustaining an effective organizational culture, emphasizing ethical practices, and establishing balanced organizational control (Ireland and Hitt, 2005).

Numerous studies have linked CEO leadership to organizational performance (see Finkelstein *et al.*, 2009; Finkelstein and Hambrick, 1996). The findings implicitly suggest that CEO leadership influence organizational performance. CEOs are perceived as having profound direct and indirect effects on three dimensions of organizational performance: current profitability, organizational growth and future positioning, and non-financial aspects of performance (see Hart and Quinn, 1993). These three dimensions often represent the interests of investors/shareholders, organizational members and customers, who are considered as the primary stakeholders of an organization.

In leadership studies, CEO leadership is often associated with charismatic/transformational leadership. This paper reviews the studies on the effects of CEO leadership on these three groups of stakeholders. The following sections will elaborate the review method and findings on the impact of CEO leadership on them.

Review Method

The review samples scholarly publications from 1982 until 2009 using two keywords: chief executive officers and organizational performance. The publications includes the *Leadership Quarterly*, *Academy of Management Journal*, *European Journal of Work and Organizational Psychology*, *Strategic Management Journal*, *Journal of Advertising Research*, *Journal of Advertising*, *International Journal of Service Industry*, *Journal of Marketing*, *European Journal of Marketing*, *Leadership and Organizational Development*, and *Management Communication Quarterly*

Review Findings

The following subsections will highlight the findings on the impact of CEO leadership on the interests of investors/shareholders, organizational members and customers as summarized in Table 1.

Effects on Investors/Shareholders' Interests

From shareholders' point of view, "CEOs are primarily evaluated on financial performance" (Epstein and Roy, 2005, p. 75). In this case, CEO effectiveness should be reflected through a company's profitability (e.g. share prices, return on assets, return on investments). Since CEO image has a spill-over effect on organizational image (McGrath, 1995a, 1995b; Power *et al.* 2008) and a positive firm brand image had higher market value of equity, superior financial performance, and less risky (Smith *et al.*, 2010), CEO effective leadership (charismatic/transformational leadership) may influence how investors and shareholders perceive future organizational success. However, research examining the relationships between leadership and hard financial measures has been equivocal (see Table I).

Table 1: CEO Effects on Primary Stakeholders' Interests

Investment	Employment	Patronage
1. Negative (Agle <i>et al.</i> , 2006; Agle, et al, 1999; Harris & Ogbonna, 2001) 2. No impact (Waldman, <i>et al.</i> , 2001; Tosi <i>et al.</i> , 2004) 3. Positive impact (Waldman <i>et al.</i> , 2004; Flynn & Staw, 2004)	Enhanced: 1. TMT decision making consensus (Flood <i>et al.</i> , 2000) 2. Followers' worthy roles models (Gardner, 2003) 3. Employees' engagement and satisfaction (Kantabutra & Avery, 2007) 4. Frontline employees as brand champions (Mohart <i>et al.</i> , 2009) 5. Employee identification with the companies (Wieseke <i>et al.</i> , 2009)	1. Credible product endorsers (Rubin <i>et al.</i> , 1982) 2. Credible spokespersons (Freiden, 1984) 3. Persuasiveness affected consumers' attitude towards advertisements, products, firms (Rienbach & Pitts, 1986). 4. Spillover effect on corporate brand image (LeBlanc & Nguyen, 1996; Power <i>et al.</i> , 2008)

Studies of the effect of charismatic CEOs on profitability have led to mixed conclusions. Agle *et al.* (2006; 1999) found that top management team members associated the charismatic CEOs of major U.S. corporations with prior organizational performance, not future organizational performance.

Meanwhile, some investigations (Waldman *et al.*, 2001; Tosi *et al.*, 2004) found no link between charismatic CEOs and financial performance. Specifically, Waldman and colleagues (2001) concluded there was no support for charismatic CEOs' link to the net profit margin of Fortune 500 firms. Tosi *et al.*'s (2004) study of public U.S. firms found that there was no link between charismatic CEOs and the firms' shareholder return, or return on assets. However, a later study by Waldman *et al.* (2004) revealed that CEO charismatic leadership predicts firm performance. Flynn and Staw's (2004) investigation found that charismatic leaders contributed to stock appreciation higher than that of comparative companies, especially during financial difficulties, and their appeals led to higher investment in the company. The study concluded that charismatic leaders have a positive impact on accounting-based and/or stock-market-based performance (changes in investments and share prices), which does not necessarily indicate the profit and loss of the business. In essence, the findings suggest that charismatic CEOs contribute positively to capital sourcing, yet not necessarily to financial returns.

Effects on Organizational Members' Interests

Studies finding on positive direct effects of CEO leadership on non-financial aspects of performance are prevalent (see Table I). CEOs with charismatic/ transformational leadership were found to have positive effects on organizational members. Charismatic leaders were perceived to be effective through presenting themselves as worthy role models (Gardner, 2003) and this form of leadership has also been identified as culturally universal (see House *et al.* 2004).

Flood *et al.*'s (2000) study of the influence of CEO leadership styles on decision making of the top management team in high technology firms revealed that transformational leadership positively predicted consensus among members and consensus decision making significantly predicted the perceived team effectiveness. Kantabutra and Avery (2007) assert the charismatic leadership places indirect emphasis on communicating a company's vision to engage employees. They found that vision is associated with enhanced staff satisfaction.

For service industry, transformational leadership enhanced frontline employee retention and brand-building behaviors (Mohart *et al.*, 2009). Charismatic leaders who managed to instil a sense of oneness with the organization had favorable impact on follower organizational identification (Wieseke *et al.*, 2009). The findings suggest that organizational identification strongly predicts employees' sales performance.

Effects on Customers' Interests

Page and Fearn (2005) found that the leadership and success of U.K. and U.S.-based companies are perceived as important by customers. CEOs are part of the leadership dimension which has been identified as one element of the corporate brand image. Keller (2008) asserts that a "CEO or managing director, if associated with a corporate brand, must be willing to maintain a more public profile to help to communicate news and information" (p. 450). This suggests that a CEO often has to be visible spokespersons to customers, which represent two sub-groups, consumers (individuals) and business buyers (procurement representatives).

In consumer research, a number of researchers have investigated the effectiveness of CEOs as brand spokespersons in advertisements (see Rubin *et al.*, 1982; Freiden, 1984; Reidenbach and Pitts, 1986). As indicated in Table I, CEOs are perceived to be more credible as product endorsers compared to unknown spokespersons (see Rubin *et al.*, 1982). The effects of spokespersons on consumer responses and effectiveness vary depending on the target group and their interests (see Freiden, 1984). Similarly, credibility varies from one CEO to another; thus, not all CEOs should be the spokespersons for their companies (Reidenbach and Pitts, 1986). Reidenbach and Pitts (1986) found that CEOs' perceived persuasiveness correlates positively with the audience's attitude toward the advertisement, the product, and the firm.

Among customers, LeBlanc and Nguyen (1996) found that the reputation of directors was one of the cues used in evaluating corporate image of service firms. Similarly, Power *et al.* (2008) posit that leader image has a spill-over effect on organizational image and is vital for corporate branding. The findings and assertion suggest that the corporate brands associated with the positive images of CEOs can favorably influence customers' perceptions of their corresponding companies. However, "many prominent leaders are seen as ruthless and...this has a negative impact on their company's brand image" (Power *et al.*, 2008, p. 596). This indicates that CEOs who would like to influence customers' perceptions will need to ensure they are not seen as ruthless.

Conclusion

The findings of this review suggest that CEOs do not directly influence the financial performance of the companies they run. The suggestion is consistent with Yukl (2008) assertion that financial performance is determined by the efficiency, adaptation and human capital of organizations. In other words, CEOs, who practice charismatic leadership, have an indirect effect on the financial performance (Finklestein *et al.*, 2009). This indirect effect suggests that the financial performance of an organization is the result of CEO effectiveness in improving commitment among employees.

Among employees and customers, the findings of previous studies suggest that CEO has direct influence on their interests. Charismatic/transformational leadership has positive effect on organizational members, while CEO positive personality images, which can be associated with leadership, have favorable influence among customers.

In essence, the studies of CEO leadership effect on three main stakeholders appear to be not equally explored. The effects of CEO leadership on investors/shareholders' and organizational members' interests have garnered the most attention among researchers. Studies investigating the effect of CEO leadership on customers' interests were limited. Drawing on the spill-over effect of CEOs' image on organizations Power *et al.*, (2008), it is reasonable to expect that CEOs of for-profit organizations should be perceived as being competent leaders in achieving organizational success. However, little is known about whether or not customers value CEO charismatic/transformational leadership in patronizing products/services of an organization.

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