



IMPACT OF LEADERSHIP ON ORGANIZATIONAL PERFORMANCE

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Abstract

The specific topic being examined is how different leaderships impact organizations and why this is. The objective of this research is to find the leadership styles most suited for firms. The conclusion shows the styles that are most impactful and utilized today while the paper describes the reasons for the success or failure of these styles while examining leaders who used these styles.

Keywords: Autocratic, Democratic/ Participative, Laissez-Faire, Charismatic, Transactional

Introduction: The correct style of leadership is the most basic requirement of any form of business. There are a wide range of many diverse leadership techniques that have been used over the generations. The 5 styles being analyzed in this paper are autocratic, democratic, laissez-faire, transactional and charismatic leadership. To be successful, leaders have to combine styles and use different types of leadership according to the situation. Thus, the leadership style of any CEO, head, etc can rarely be identified as one. In this literature review, the most prominent leadership traits have been used to categorize them into different leadership styles and analyzed them on the basis of books, interviews, etc made about them in the past by their peers, business partners, employees, etc.

Theory:

Autocratic Leadership: Authoritarian leaders maintain control over all decisions being made with little to not input from other people. They tend to be overpowering, extremely assertive and sometimes dictating. They make speedy decisions, useful in competitive markets where firms are perpetually readjusting, provide well-defined instructions for its employees and help provide invaluable framework to organizations. However, in forms where original and innovative ideas have to be created relentlessly, it blocks creative input from its workers, creates a very inflexible and stringent work environment for its employees which impacts morale poorly. Autocracy can be an off-putting style of leadership to work under and has a negative connotation but there have been many successful and well-known business leaders who have used this style in a competitive, evolving markets to change the game. A famous example is Jeff Bezos. He is also widely known as a transformational and experimental leader, owing to his contributions and advancements in reforming Amazon in the global market and many of his traits in the running of his organization do indicate that he is an authoritarian leader. Jeff Bezos was impolite to his workers, overconfident and made some hasty decisions but while Amazon made some very risky gambles under his leadership, it is a shining example of a thriving company governed by an authoritarian. Thus, autocracy has highly efficient workplaces and quick results but employees

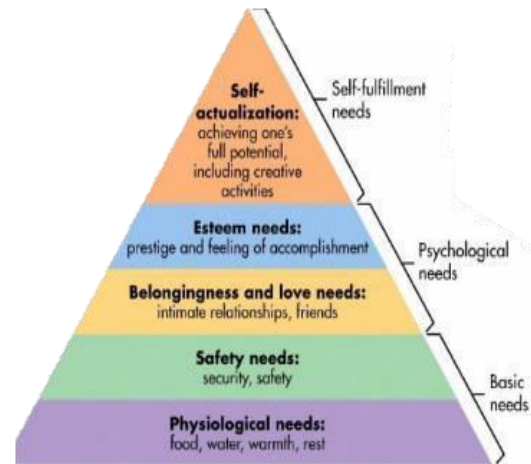


do not generally prefer this style as it restricts their freedom, makes them feel resentment or irritation which increases employee turnover rate. Some of Amazon's employees said, in a survey, 'Sometimes is worse than a prison' and 'You don't feel valued at all'.

Participative Leadership: Participative leadership, more commonly known as democratic leadership, gives importance to involvement of its stakeholders. Employees in participative firms tend to be more motivated and have higher levels of job satisfaction. Democracy encourages teamwork which creates healthy work environments and increased innovation. Since the issues of the organization are shared with the employees, they feel included leading to low turnover rates while the employer has less pressure to solve the problem as the employees offer a variety of unique solutions. However, as a number of ideas are considered, many are rejected which causes resentment. A prominent disadvantage of participative leadership is that the leader is forced to consider every worker's opinion, even if it not their area of expertise which leads to unnecessary discussions and prolonged decision making which is a drawback in shifting markets. Another issue is that of the 'Yes Men' who simply agree with the leader and do not actually offer their own opinion in fear of authority or spotlight. This is named the HiPPO (Highest Paid Person's Opinion) effect which can be detrimental to the company as the idea of a democracy to not rely on one person's decisions. While there are many examples of highly successful companies utilizing democracy, one of the most groundbreaking organizations would be Google. One of the methods used are weekly meetings which are joined by all of its employees with whom important information is shared followed by a question-answer session which allows doubts to be addressed.

Laissez-Faire Leadership: This style of leadership essentially is completely reliant on its employees as the leadership themselves play little part in the actual process and adopt a 'hands off' philosophy. Skilled employees thrive in these work environments as they have all the needed resources made available to them and due to the creative freedom, they innovate as much as they want which is a huge motivator. Employers see a high retention rate from this style as the job satisfaction levels of their employees are high. However, all workers are not experienced & skilled and they require guidance for work to be done well. As each person is essentially working on their own terms, there is no threat to meet a specific deadline as the probability is that they won't be held accountable. As there are no specific directions, there is a lot of confusion because there is nobody to look to for answers to or a specified job to complete. It can also greatly weaken the authority of the leader as the employees may not see the leader as their superior. A very important disadvantage is passive-avoidant leadership. This is a form of laissez-faire leadership when the leader fundamentally ignores its workers troubles, avoids taking the important decisions which causes an absence in leadership which can impact the company badly. Warren Buffet of Berkshire Hathaway is one of the most successful laissez-faire leaders today, named fifth richest in Forbes' list. While he closely monitors his employees work, he does not usually interfere with their work. He pays very close attention to workers which is evident from his annual report where he praises individual employees for their work which is an excellent motivational method.

Transactional Leaders: Transactional leadership focuses on a reward-penalty system that is used to motivate employees, essentially a less severe version of autocracy. The leader provides clear-cut instructions which makes work more understandable for its employees and provides invaluable framework to organizations, a structure that relieves pressure and increases efficiency. One of the major benefits of using transactional leadership is that employees tend to be mostly self-motivated because they can typically choose the rewards for their work. However, as with autocracy, it greatly reduces innovation in the workplace and employees tend to follow rather than offer an actual opinion due to



excess importance given to rules. There are very impersonal relationships between leaders and employees which disincentivizes them. Another problem that has been previously analyzed by researchers is the matter of accountability because workers are held answerable in matters where the leader's delegation is at fault. Rewards in transactional leaderships focus on satisfying the levels of Maslow's hierarchy. Bill Gates is a transactional leader and under his leadership, Microsoft revolutionized the market. Bill Gates makes frequent checks on his employee to make sure everything is going as it should and was an efficient leader. He promoted sharing ideas in the workplace but if he didn't like them, he was very discouraging. This demotivated many employees and caused many talented workers to leave Microsoft. To conclude, transactional leadership is a good practice that satisfies both employees and employers. However, leaders must keep in mind that while intrinsic rewards motivate their workers, employee can be very demotivated with their job specifically due to the matter of accountability and lack of freedom. (researched/proven by different studies over the years).

Charismatic Leadership: Charismatic leadership relies on the leader's personality, persuasiveness and confidence. Charismatic leaders tend to be confident, creative and good communicators. Leaders form personal connections with their employees which reduces turnover rate greatly. The main goal is shared by everybody which raises morale and creates a sense of unison. A charismatic leader relies on emotional appeal and thus, employees tend to be self-motivated to achieve their objectives. However, charismatic leadership is extremely dependent on the leader. It often happens that leader experiences burnout which brings down the motivation and energy levels of the whole organization. It's also common for the leader becomes the 'do-all, be-all' of the organization which has potential to harm the company as if the leader is not there, nothing will be done. In other cases, the leader is the face of the company and customers use it because they trust the leader and this can cause problems when the leader changes. Another disadvantage is that the leader must be accepted by most of the employees for this type of leadership to work. Charismatic leaders often tend to be either transformational or transactional as well and utilize methods of motivation from these leadership styles.



Conclusion

In conclusion, while autocracy does help accomplish goals, it often has overall negative impact on the employees. It decreases job satisfaction and is not an advisable leadership style. Participative leadership style is frequently used today and for good cause, as it brings satisfaction to employers, employees, customers, etc. This leadership style combined with others makes a good combination for a successful leader. Laissez faire can be beneficial to workers and employers but is highly inefficient in many cases and has virtually no crisis management capability. It is extremely ineffective without both experienced leaders & employees. Transactional leadership is efficient and useful but close to useless in fields where innovation is required. It is not advisable alone but combining it with others can lead to better results. Charismatic leadership's main threat is that of creating followers instead of leaders but there is ready availability of assertive employees and this is a motivating leadership style that is extremely useful. I would recommend this combination: Participative/Charismatic with Transactional.

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