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NEW IDEAS ABOUT LEADERSHIP AT WORK IN THE WORKPLACE

This study examines the impact of managerial leadership theories on the way mangers in organizations across US perceive and define their organizational performance. The analysis focuses on the model of managerial efficiency described by the open systems, organizational learning and systematic thinking theories which stress the need for extensive authority decentralization and moderate formalization of organizational practices in order to ensure performance in organizations that function in a continuously changing environment. Results of analysis of National Organization Survey (NOS) data show that with regard to the need for decentralization, the theoretical model is indeed attuned with the way managers working under uncertainty understand and evaluate their organizational performance.

Open systems, organizational learning and systematic thinking in organizations.

The current organizational environment has changed, in such a way that transformation itself is now one of its defining characteristics. As noted by Quin, Faerman, Thompson and McGrath (QFTM, 1996), shifts in the main societal values in a certain period of time are followed by the emergence of new models of management. Fort instance, the open system model is one explanation of the management process, which specifies managerial behaviors that would be most successful in responding to the current environment in which technological progress have made possible fast pace reconstructions of both the resources available and problems faced by organizations. To quote the aforementioned authors, with the open system model, "the key criteria for organizational effectiveness are adaptability and external support" (QFTM, 1996, p.9). Swift adaptation and openness to environmental new offers require both from managers and from the organization as a structure an increased ability to learn. In one of the recent works on learning organization, Belasen (2000) stresses the importance of decentralizing the organizational structure and describes empowering task teams and encouraging self-management as conditions for successful high-performance leaders in charge of such a learning organization. "Empowered team members think and act like local entrepreneurs who are sensitive to customer demands and can respond quickly and creatively to market changes" (Belasen, 2000, p. 3)

However, a high degree of decentralization of the organizational structure does not necessarily ensure by itself a better pattern of coping with the new organizational environment. It would be only reasonable to assume that in this environment, effective organizations are those that not only are able to adapt to the changes they continuously encounter but are also able to both maintain a coherent mission and to have particular actions reflecting this mission. A difficult task, which would require both a systematic conceptualization of the organizational mission and main goals, and an effective, unbiased diffusion of this understanding across vertical and horizontal levels of the organizational structure. The need for maintaining internal consistence and cohesion adds in this way a new efficiency requirement to the learning organization: a principled, systematic understanding of the main organizational goals, which will be functional across the entire organization.

To illustrate the extent to which both systematic understanding and effective communication of the organizational strategic planning can affect organizational performance we will describe situations in which these conditions are not met. There are at least two ways in which an organization can fail to adopt a pattern of behavior that would make it successful in the new organizational environment. One is by communicating a general strategy across the organization in a rigid manner, and consequently acting inflexibly – having the mission and goals translated into a strictly defined, unanimously accepted and strongly defended set of rules that describe in detail the correct courses of action for each of a certain number of situations. In this case the disadvantage is that lacking flexibility, while well preserving the specific organizational practices, the organization is unable to take advantage or even perceive the possible opportunities that the rapidly changing environment might offer. Another example of unsuccessful response to the organizational environment changes is an organization that acts by directly responding to what the environment is offering without having (or making use of) a guiding mission, a general strategy. Such an organization may face the problems generated by incongruence or even stark contradictions between the actions taken at different moments within a certain time span or by the different organizational units.

The ideal situation is when a systematic conceptualization of the mission and goals and an effective communication of them within the organization enable the strategic plan to become a shared vision. This requires the general principles of the organizational strategy of development to be correctly translated at lower levels of management in the organization. A shared vision of

the strategic plan is an effective way of responding to the complexity and the rapid changes in the different sectors of the organizational environment, because it ensures coherence across an organization that needs to allow the people who are directly facing the problems and opportunities to have freedom to both define them and deal with them. This is the reason why organizations tend to be faced increasingly with the need for decentralization of decision. Good communication of the goals and mission of the whole organization would prevent it from disintegrating into independent units. First line, or middle managers need to have the power to take decisions but in the same time, they also have to be committed and able to apply the general principles of strategic planning to the specific situations they encounter.

The present study does not address directly the problem of the content of strategic planning, nor the quality of its communication across the different organization levels. The aim of the study is not to offer a new empirical test of the validity of these ideas. The problem investigated here is related to the way the model of organizational efficiency we have presented above has an impact on the managers' perceptions of what constitutes good management practice in organization. More specifically this study investigates the extent to which managers acknowledge the need for decentralization and a moderate degree of formalization of organizational practices as a response to the new organizational environment and whether this has any impact on the way the organizational performance is evaluated.

The questions addressed by the following analysis are whether indeed leadership style is changing in order to accommodate the new organizational environment and to what extent are the new ideas about leadership reflected in the real world organizations. The hypothesis tested here is that, if consistent with the theories described above, managers evaluate organizational performance more favorably if they perceive their organization as having a higher level of decentralization accompanied by less formalization when it functions in a changing environment.

METHOD

To answer these questions and test the hypothesis we examined one of the largest databases on American organizations, the National Organizations Survey (NOS) available through the ICPSR (Interuniversity Consortium of Political Science Research) at University of Michigan. The National Organizations Study was conducted in 1991 and as its authors put it "it was designed as a multipurpose, multi-investigator project that would produce a database suited to answering questions about social behavior in work organizations that could not be addressed

satisfactorily by less extensive designs" (Kalleberg, A.L., Knoke, D., Marsden P., Spaeth J.L., 1994, p860).

There are several advantages for using this data. One is that given the sampling method used – a hypernetwork sampling – they are representative for all of the American work establishments which gives a high degree of generalizability to the results of analyses using these data. With this selection method, the cases in the sample (the work establishments) were identified by asking the respondents in the 1991 GSS survey (General Social Survey) to name the organizations in which themselves and their spouses worked or have been working if they were not currently employed. Telephone interviews were then conducted with representatives from the organizations identified using the NOS questionnaire, which contained the items we are using here (Spaeth, J.L., O'Rourke, D.P., 1994). The second advantage - which pertains particularly to the question we are addressing - is that, rather then being only a collection of statistics on the performance indicators or other measures which could be related to the management process, NOS contains highly representative survey data reflecting the perceptions and opinions of the managers interviewed. The following analysis will focus on the relationship between several of these perceptions on organizational and environmental characteristics.

If influenced by the current theoretical trend of defining what successful leadership is, the managers questioned by NOS will asses the performance of their organization more positively if they perceive the situation of the organization as being consistent with the theoretical recommendations. More specifically, the models we have referred to (open systems model, learning organization model) stress the importance of increasing the ability of the organization to adapt to a changing environment by having a more flexible, decentralized structure. We hypothesized that if these ideas are indeed at work in the work place, managers' assessments of the performance of their organization will be related to their perception of the uncertainty of the environment, their perception of the degree of decentralization as well as how they perceive the degree of formalization in specifying the organizational practices that may reflect the guiding organizational goals and principles.

Most of the indicators we used to test this hypothesis are composite measures combining answers to multiple items in the questionnaire. What follows is a description of the exact composition of these scales.

Level of performance

The performance scale we used is a summary of several subjective benchmarking (Kalleberg A.L., Moody, J.W., 1994) items in the questionnaire. The question asked was:

> "How would you compare your organization's performance over the past three years to that of other organizations that do the same kind of work?
>
> 1. Much better, 2. Somewhat better, 3. About the same, 4. Worse

We considered the answers to the following specific domains (the variable numbers in the database are identified in parentheses): 1. quality of new products (V289), 2. development of new products, services, or programs (V290), 3. ability to attract essential employees (V291) 4. ability to retain essential employees (V292), 5. satisfaction of customers or clients (V293) 6. relations between managers and other employee (V294), and 7. relations among employees in general (V295). The answers were recoded to have high values for high performance and the scores for the performance scale (PERFORM) are averages of the four evaluative values for all the seven items.

Degree of decentralization.

The decentralization questions in the NOS questionnaire were asked in two slightly different versions to the representatives of independent organizations and to the representatives of local branches or other form of subunits within larger organizations. The decentralization index in the following analysis combines the answers of both groups of respondents. The question asked was:

> "We are interested in who is responsible for making different kinds of decisions in your workplace. I am going to read a list of decision areas, and ask you to tell me who <u>actually</u> makes the <u>final</u> decision in each area. Is it the head of the organization, someone below that, or someone at the larger organization?"

Organization representatives were asked about the following areas: 1. the number of people employed here (V271, V279), 2. which new employees to hire (V272, V280), 3. using subcontractors or temporary workers (V273, V281), 4. evaluating worker performance (V274, V282), 5. worker promotions (V275, V283), 6. wage rates or salary levels (V276, V284), 7. discharging or laying off workers (V277, V285), 8. worker scheduling and overtime (V278, V286). The decentralization scale (SDESCEN) values are averages on all the eight items of the following answers ordinal scale: 1 – the final decision is taken by someone from the larger

organization, 2 – by someone from the larger organization and the work establishment head, 3 – by the head of the work establishment, 4 – by the head and someone below, 5 – by someone below. Larger composite values are for a higher degree of decentralization.

Degree of formalization.

Eight questions were combined in the formalization scale. Respondents were asked whether in their organizations the following documents exist or not: 1. a "rules and procedures" manual (V262), 2. written job descriptions for most jobs (V263), 3. a written record of nearly everyone's performance (V264), 4. employment contracts (V265), 5. documents telling how personnel evaluations are carried out (V266), 6. documents outlining hiring and firing procedures (V267), 7. documents describing safety and hygiene practices (V268), 8. documents describing fringe benefits available to employees (V269). The formalization index values are proportions of the total items answered with yes.

Environment change was operationalized by one question which asked the respondents to say whether they agree or disagree with the following statement:

"The techniques, skills and information needed by your organization are changing very rapidly"

The answers were coded with 0 for "disagree" and 1 for "agree" making the item a dummy variable (ENCHANGE) we used in the analysis.

Results

Bivariate comparisons of performance, decentralization, and formalization measures between the group of organizations in which managers perceived their relevant environment as uncertain and changing and the group of organizations where the managers were less inclined to acknowledge such features found very similar patterns for the entire sample as well as for the case in which we split the sample in profit and not for profit organizations (see Figure No.1).

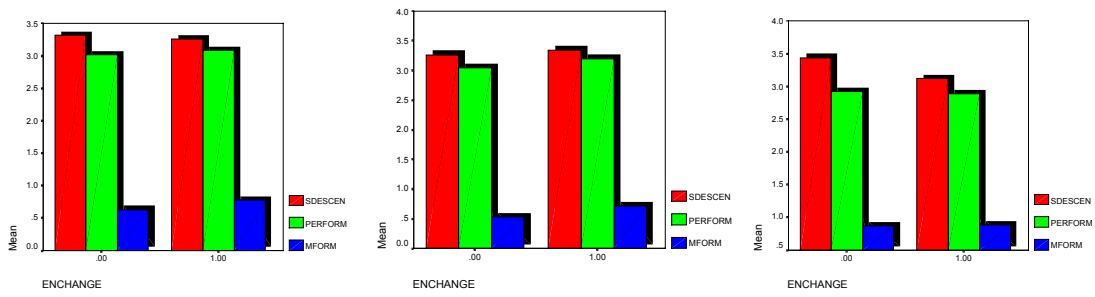

Figure No.1. Average values of decentralization, formalization, and performance evaluation indicators for the organizations which perceive their environment as rapidly changing (1) or not (0) (All organizations, profit, and not for profit organizations)

The differences in means were not very large and only partially consistent with the hypothesis. Table No.1 shows that when all the organizations were considered, the average values for performance as well as for the degree of decentralization and formalization were higher for the group of organizations that perceived rapid changes in the relevant environment than the average values in the group where environment change was not an issue. The same tendency was noticed when only the profit organizations were considered (Table No.2). The possible association between decentralization and performance evaluation was in the direction expected – managers from organizations functioning under higher environmental uncertainty perceived their organizations as having a higher degree of decentralization and tended to evaluate organizational performance more positively than did the managers coming from organizations less subjected to environmental uncertainty. However, contrary to the hypothesis the degree of formalization was not lower in the organizations under the environmental uncertainty condition.

Table No.1 Average values of decentralization, formalization, and performance evaluation indicators by type of perceived change in the environment (All organizations)

	Techniques, skills and information needed by org. are changing rapidly								
	disagree			agree			Total		
	Mean	N	Std. Deviation	Mean	N	Std. Deviation	Mean	N	Std. Deviation
PERFORM	3.0049	175	.6057	3.0720	373	.6305	3.0506	548	.6229
SDESCEN	2.9345	250	1.496	3.0701	474	1.499	3.0233	724	1.498
MFORM	.5884	249	.3766	.7387	466	.2943	.6864	715	.3329

Table No.2 Average values of decentralization, formalization, and performance evaluation indicators by type of perceived change in the environment (for profit organizations)

	Techniques, skills and information needed by org. are changing rapidly								
	disagree			agree			Total		
	Mean	N	Std. Deviation	Mean	N	Std. Deviation	Mean	N	Std. Deviation
PERFORM	3.0377	125	.6343	3.1921	232	.5791	3.1381	357	.6027
SDESCEN	2.8997	177	1.4850	3.0780	295	1.5410	3.0111	472	1.5211
MFORM	.4780	176	.3767	.6574	289	.3237	.5895	465	.3552

When only the not for profit organizations were considered (Table No.3), the differences were only partially in the direction expected. The means for decentralization and formalization were again higher in the group that perceived the environment as changing, but this did not coincide (as happened in the previous comparisons reported) with a more favorable evaluation of performance. The performance evaluation average was higher for the situation in which the relevant environment was not perceived as changing too much.

Table No.3 Average values of decentralization, formalization, and performance evaluation indicators by type of perceived change in the environment (not for profit organizations)

	Techniques, skills and information needed by org. are changing rapidly								
	disagree			agree			Total		
	Mean	N	Std. Deviation	Mean	N	Std. Deviation	Mean	N	Std. Deviation
PERFORM	2.9229	50	.5245	2.8744	141	.6632	2.8871	191	.6283
SDESCEN	3.0188	73	1.5293	3.0573	179	1.4309	3.0461	252	1.4571
MFORM	.8545	73	.2052	.8715	177	.1698	.8665	250	.1806

Somewhat different tendencies we found when we divided the sample by the public/private dimension (Figure No. 2). The public organizations managers seemed to have answers similar to the managers from the not for profit organizations: higher means for decentralization and formalization but lower means in performance evaluation when the environment was perceived as changing than when not (see also Table No. 4).

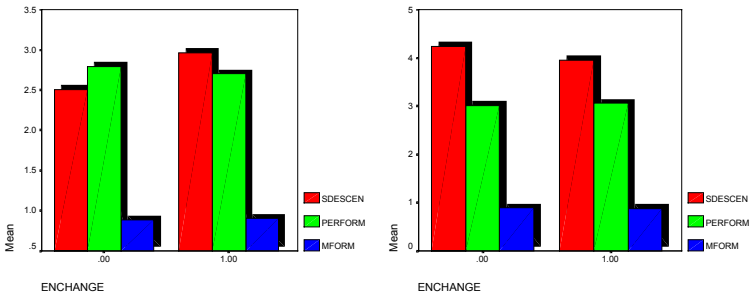

Figure No.2. Average values of decentralization, formalization, and performance evaluation indicators for the organizations which perceive their environment as rapidly changing (1) or not (0) (public organizations, private organizations)

Table No.4 Average values of decentralization, formalization, and performance evaluation indicators by type of perceived change in the environment (public organizations)

	Techniques, skills and information needed by org. are changing rapidly								
	disagree			agree			Total		
	Mean	N	Std. Deviation	Mean	N	Std. Deviation	Mean	N	Std. Deviation
SDESCEN	2.02	17	1.7800	2.85	80	1.4888	2.71	97	1.5663
PERFORM	2.80	12	.3250	2.69	65	.6218	2.70	77	.5852
MFORM	.7868	17	.2680	.9087	78	.1220	.8868	95	.1632

A totally different picture from all the comparisons we have reported so far we had when we singled out the responses of managers from the private organization (Table No. 5). More favorable evaluations of performance in the perceived environmental change group coincided with higher formalization but not with high decentralization. This was the only group in which perceived uncertainty was not associated with increase in decentralization.

Table No.5 Average values of decentralization, formalization, and performance evaluation indicators by type of perceived change in the environment (private organizations)

	Techniques, skills and information needed by org. are changing rapidly								
	disagree			agree			Total		
	Mean	N	Std. Deviation	Mean	N	Std. Deviation	Mean	N	Std. Deviation
PERFORM	3.0179	16	.5027	3.0579	37	.5308	3.0458	53	.5179
SDESCEN	4.1118	19	1.133	3.9244	43	.9748	3.9819	62	1.020
MFORM	.8618	19	.2316	.8576	43	.1780	.8589	62	.1940

By comparing the means on the indicators of performance evaluation, perceived degree of formalization and decentralization between the organizations which function in an uncertain environment and those which had representatives who do not asses the environment as uncertain, we were able to identify several main trends. In most of the comparisons - conducted on the entire sample or on the subsets of data - we found an overall tendency of the measures of decentralization to have higher values in the groups where the environment was perceived as changing (the only exception to this pattern was on the private organizations subset). Also, in all the cases analyzed, we found higher mean values for the formalization indicator in the groups with perceived environmental uncertainty.

Only when the comparisons were conducted for the entire sample and for the profit organization subset, higher averages for decentralization and formalization were matched by higher means of performance evaluations in the groups with uncertain environments. For the not for profit and public organizations subsets, performance evaluation was not increased in the perceived uncertainty groups even though those groups had higher averages for decentralization and formalization. The private organizations subset results were again only partially consistent with the hypothesis but in a different way. In the private organizations, managers evaluated more favorable the performance in the uncertainty group and also perceived a higher degree of formalization. They did not however, view their organizations as more decentralized. To summarize, results of bivariate analysis showed that when all the organizations as well as in the case of public, private, and not for profit subsets the averages were only partially consistent with the hypothesis.

Multivariate analysis.

To test for the possible interactions between the factors, which could explain the contradicting results, we used a multiple regression model. The basic regression equation was:

performance=intercept+b1*decentralization+b2*formalization+b3*decentralization*environmental change

There is one particular relation that this model can be helpful: controlling for the relationship between decentralization and formalization and their combined effect on performance evaluation. We expect the relationship between the degree of formalization and performance evaluation in the model to be nonlinear. Moderate increase in the number of activities for which there are formalized and explicitly communicated rules and procedures may allow lower level managers to have a greater freedom and depend less on their supervisors as long as their decisions are within the frame described by the rules. A high degree of formalization though, could actually counteract any decentralization efforts, reducing the ability of lower level managers to adapt to changing in the environment by confining them to courses of actions already set by the rules and procedures documents.

The last term of the equation accounts for the interaction between the perceived degree of change in the relevant organizational environment and the degree of decentralization. This interaction terms allows comparisons between the effect of decentralization, formalization and environmental change on performance evaluation across organizations where there is a perception of the environment as changing and uncertain and those where environmental changes are not perceived as relevant. The hypothesis we are testing here again is that if managers are influenced by the current organizational theory trends, they will evaluate performance more favorably when high decentralization and moderate formalization are responses to the change and uncertainty in the relevant environment.

We have again tested the relationships for the entire sample of organizations as well as for subgroups of data selected according to the type of organizations: profit, non-profit, public, or private. Table No. 6 shows the results of these regressions. Overall, the model had a rather high explanatory power with adjusted R^2 values for the entire sample and the subsets of data ranging from .62 (for the profit subgroup) to .95 (for the public organizations subgroup).

As coefficients for the interaction term (decentralization * environmental change) show, the regression results are supporting the hypothesized relationship between the degree of decentralization, perceived change in the environment and performance evaluation. For all the situations considered, the entire sample as well as for the subgroups of different types of organizations, the coefficients for the interaction terms were highly significant, with t ratios larger than the values corresponding to a significance level of .01. This result allows us to be quite confident in affirming that, controlling for all the other factors in the equation, for all five models tested, when managers perceived the environment as changing and uncertain (dummy variable=1) for every one unit increase in the degree of decentralization the performance evaluation will be more favorable with approximately one unit. As expected the relationship was positive and the coefficients became significant when introducing the interaction term in the model we were able to account for the combined effect of perceived change and decentralization. The effect was largest for the non-profit organizations groups (one unit increase in decentralization was associated with 1.01 units more positive evaluation) and it was smallest for the private organizations where one unit increase in decentralization was associated with only .96 units increase in the favorable evaluations of performance.

Table No. 6. Regressions for performance assessments
(Regression coefficients with t ratios in parentheses)

Independent variables	All organizations	Profit	Non-profit	Public	Private
Intercept	2.957	2.991	2.910	2.940	2.811
Decision decentralization	-.00533 (-.493)	-.017 (-1.127)	.010 (.725)	-.0115 (-1.153)	-.0540 (-1.359)
Degree of formalization of organizational practices	.113** (2.233)	.207*** (3.231)	-.0249 (-.207)	-.128 (-1.097)	.490* (2.002)
Perceived change and	-3.031***	-3.041***	-2.920***	-2.792***	-3.061***

uncertainty in environment (dummy)	(-32.547)	(-21.440)	(-26.504)	(-34.565)	(-11.179)
Interaction term	1.001***	.987***	1.000***	1.001***	1.010***
	(35.334)	(23.147)	(28.650)	(38.641)	(11.874)
Adjusted R^2	.698	.621	.814	.953	.730
Number of observations	542	353	189	75	53

* significant at .10, ** significant at .05, *** significant at .01

Conclusions

Considering the results of bivariate comparisons and especially the results of the multiple regression models we have reported here, we can conclude that there is a consistency between the way effective management in the new organizational environment is described in the theoretical models and the way managers tend to evaluate their organizations' performance more favorably. More specifically, we found significant results with regard to the need for greater decentralization of authority within organizations as an adaptive response to the change and uncertainty in the relevant environment. When the regression models were able to compare responses of managers by the way they perceived their environment (as changing or not) we found that when such changes were considered important for the organization, managers had a strong tendency to evaluate their organizational performance more favorably if they assessed the patterns of authority within that organization as more decentralized. The results were less convincing with regard to the effect an increased formalization might have on the performance evaluation. It may be the case that a model that would account for a nonlinear relationship between formalization and performance evaluation in an uncertain environment could find more significant results for this relationship too.

Our results suggest that managerial practice and theoretical models meet in acknowledging one set of conditions we have discussed in the beginning of this paper concerning effective management in the current environment: those related to reconstructing the organizational structure in a manner that would empower the previously lower level managers enabling thus the decision making process to become closer to a continuously challenging environment. Further developments in this line of enquiry would most likely address the other set

of requirements we have pointed to: the need for a systematically elaborated strategic plan and an effective communication of it across the organization.

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