

DISSERTATIONES RERUM OECONOMICARUM  
UNIVERSITATIS TARTUENSIS

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**KURMET KIVIPÕLD**

Organizational Leadership Capability and  
its evaluation based on the example  
of Estonian service organizations



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## THE LIST OF AUTHOR'S PUBLICATIONS AND CONFERENCE PRESENTATIONS

### I. Articles in international journals

1. Kivipõld, K., Vadi, M. (2010). A Measurement Tool for the Evaluation of Organizational Leadership Capability. *Baltic Journal of Management*, Vol. 5, No. 1, pp. 118–138

### II. Other research articles

1. Kivipõld, K., Vadi, M. (2008). A Tool for Measuring Institutional Leadership and Its Implementation for the Evaluation of Organizational Leadership Capability. *Tallinn University of Technology Working papers in economics* (TUTWPE), Volume 25, No 172, pp. 55–72

### III. Conference publications

1. Kivipõld, K., Ahonen, M., Pärenson (Reisberg), T. (2010). Attempt to Use Organizational Leadership Model for Measuring Job Satisfaction: The Case of IT Service Organization in Estonia. *Competing Values in an Uncertain Environment: Management the Paradox*. ISSWOV, pp. 576–583
2. Kivipõld, K., Vadi, M. (2010). Organizational Leadership Capability and Corporate Social Performance: the case across financial and retail services in Estonia. *The Next Generation Responsible Leaders*. University of Pretoria, pp. 72–79
3. Kivipõld, K., Vadi, M. (2009). Organizational leadership capability and performance: the case of Estonian financial service. *Recent Advances in Retailing and Services Science*. EIRASS, pp. 1–18
4. Kivipõld, K. (2009). Organizational Leadership Capability and Social Responsibility: the case across financial and retail services in Estonia. *Doctoral Summer School 2009*. University of Tartu and Tallinn University of Technology Doctoral School in Economics and Innovation, pp. 1–17
5. Kivipõld, K. (2009). Organisatsioonilise eestvedamise mõju organisatsiooni finantstulemuslikkusele, hindamine Eesti finantssektori organisatsioonide näitel. *Management Theory and Practice: Synergy in Organizations*. Tartu, pp. 1–28
6. Kivipõld, K., Vadi, M. (2008). Balanced Structure of Institutional Leadership: the gateway to the social responsibility. *Work Values and Social Responsibilities in a Changing World: From Being Good to Doing Good*. ISSWOV, pp. 33–42
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10. **Kivipõld, K.** (2004). Juhtimisoskuste genereerimise ja ülekandevõime hindamise võimalusi. *Juhtimistooria ja -praktika sünergia organisatsioonides: Rahvusvaheline konverents Juhtimistooria ja -praktika sünergia organisatsioonides*. Tartu Ülikooli Kirjastus, pp. 27–35

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2. **Kivipõld, K.** Organizational leadership capability and performance: the case of Estonian financial service, *EIRASS 16th International Conference on Recent Advances in Retailing and Services Science*, 06–09 July 2009, Niagara Falls, Canada.
3. **Kivipõld, K.** Organisatsioonilise eestvedamise mõju organisatsiooni finantstulemuslikkusele, hindamine Eesti finantssektori organisatsioonide näitel, *IV International Conference of Management Theory and Practice: Synergy in Organizations*, 03–04 April 2009, Tartu, Estonia.
4. **Kivipõld, K.** Organisatsiooni struktuuri salvestunud juhtimisoskused ja nende seos organisatsiooni sooritusega, *Tartu Ülikooli Majandusteaduskonna Teadusseminarid*, 28 Oktober 2008, Tartu, Estonia.
5. **Kivipõld, K.** Balanced Structure of Institutional Leadership: the gateway to the social responsibility, *ISSWOV Eleventh Biennial Conference of the International Society for the Study of Work and Organizational Values*, 22–25 June 2008, Singapore.
6. **Kivipõld, K.** A Tool for Measuring Institutional Leadership and Its Implementation for the Evaluation of Organizational Leadership Capability, *ELASM Workshop on Architecture and Social Architecture: Disturbing Notions of Structure in Organizations*, 15–16 May 2008, Brussels, Belgium.
7. **Kivipõld, K.** A Measurement Tool for the Evaluation of Organizational Leadership Capability, *UCL School of Slavonic and East European Studies Workshop on Innovation and Organizations: Economic, Social and Institutional Aspects from Estonia*, 17 April 2008, London, UK.
8. **Kivipõld, K.** Structural capital as a strategic component of intellectual capital of organization: Possibilities to measure the structural capital of organization, *III International Conference of Management Theory and Practice: Synergy in Organizations*, 03–04 April 2007, Tartu, Estonia.
9. **Kivipõld, K.** An attempt to design the measurement tool of Institutional Leadership, *Doctoral Summer School of the University of Tartu and Tallinn University of Technology Doctoral School in Economics*, 30.07–02.08. 2006, Nelijärve, Estonia.



10. **Kivipõld, K.** An attempt to design the measurement tool of Institutional Leadership, *ISSWOV 10th International Conference of the International Society for the Study of Work Values*, 25–29 June 2006, Tallinn, Estonia.
11. **Kivipõld, K.** Juhtimisoskuste genereerimise ja ülekandevõime hindamise võimalusi, *II International Conference of Management Theory and Practice: Synergy in Organizations*, 26–28 May 2004, Tartu, Estonia.

# INTRODUCTION

## Motivation for the research

Today's organizations operate in the context of rapid change, which compounds the complexity of the present and the uncertainty of the future at all levels of society. Under these conditions organizations are faced with the challenge of simultaneously achieving short-term performance and long-term success. This means that organizations need to be and remain effective in a turbulent environment. Some scholars (e.g. Garcia-Morales, Llorens-Montes and Verdu-Jover, 2008) mention that the modern information and knowledge society requires new leaders who can confront a reality based on knowledge and foster innovation to achieve improvements in organizational performance. De Vries (1996) highlights remarkable CEOs such as Jack Welch from General Electric, Percy Barnevik from ABB and Richard Branson from Virgin, who have managed such challenges.

However, studies of this type of leadership are mostly based on assumptions that are widely shared across a diverse range of leadership scholars, and include "trait" theory, behavioural approaches and "content-process" approaches (Conger, 2006). Leadership described in terms of such approaches has from time to time been known as "heroic" leadership.

By contrast, Edvinsson (2002) argues that this one-dimensional heroic leadership is insufficient for the modern economic environment. Pasternack, Williams and Anderson (2001) share this understanding and have said that leadership must not be a solo act performed by a charismatic CEO because society has a lack of such superstars in executive suites. In addition, they argue that leadership can be seen as an institutional capacity and a strategic asset. Describing the process of creating strategy, Mintzberg, Ahlstrand and Lampel (2005), and Gratton (2000) emphasize the organizational capability of learning and discovery, which construes the strategic initiative of organizational members at different levels of the organization. Mayo (2001) considers this multi-level activity of organizational members as collective leadership, and Pasternack *et al* (2001) have assessed this strength within the framework of the institution's Leadership Quotient (LQ).

Since Barnard proposed a new organizational theory – organizations are cooperative systems, not the product of mechanical engineering (Perrow, 1975: 193) – the collective nature of organizations has been developed within different schools of organizational thought. Nevertheless, before 1980, approaches to leadership focused on observable, short-term, leader-follower relationships at the micro level, but leadership at the macro level was generally ignored (Bass, 2006). New approaches to leadership consider the multi-level phenomenon of leadership, where the determinant is the higher collective level (team, group or organization).

New leadership approaches appeared at the end of the 1990s and are distinct from traditional approaches to leadership. Also, these new approaches

distinguish leadership from leaders. According to Stacey (2010) and Lichtenstein, Uhl-Bien, Marion, Seers, Orton and Schreiber (2006) leadership is not in or done by leaders, but is rather an emergent outcome of relational interactions between organizational members. This leadership represents the multi-level behaviour of the whole organization or (sub)unit where conditions at higher levels provide a context for processes at lower levels. In this dissertation this is defined as an organizational leadership.

From the strategic point of view, leadership at the level of the entire organization appears as an organizational capability that secures organizational performance and long-term success. Therefore, leadership at the organizational level – referred to as organizational leadership in this dissertation – is important for improving the effectiveness and increasing the performance of organizations.

Scholars of strategic management (e.g. McGee, 2006a; Makadok, 2001) highlight organizational capabilities as essential assets that can earn rents (a surplus of revenue over cost) and create competitive advantage for organizations in the modern economy. These capabilities are intangibles based on the knowledge and skills of an organization and its members (e.g. Grant, 1996; Collis, 1994; Amit and Schoemaker, 1993). Some of these are universal, while most are industry and organization specific. The most important of them are organization-specific knowledge and skills, which are the basis for generating competitive advantage in organizations. In this process the capability of organizational leadership holds the central position by coordinating the integration of knowledge and skills across all levels of the organization.

The capability of leadership at the organizational level manifests itself as a combination where the organizational structure is interlaced with leadership processes in organizational systems. Organizational structure is here understood as a dynamic pattern of a recurrent relationship between organizational members. Organizational leadership capability as an “emergent state” or the embedded capacity of the organization that develops over the life of an organization is typically dynamic in nature – various ongoing and developing internal organizational processes with respect to external environmental changes. This dynamic capability is not only important to organizations for achieving success in the present, but is also important in the long-term. Day, Gronn and Salas (2004) believe that team leadership capacity contains potential for future performance as well.

The importance of organizational leadership is increasing rapidly in investigations of modern organizations, especially in the field of knowledge-based services organizations. In advanced economies, where the service sector forms a larger part of the structure of the economy (Tether and Metcalfe, 2004:289), knowledge is the most important element in value creation for service organizations (Rooney, McKenna and Liesch, 2010:69). Service organizations vary with a great range of knowledge and skills that depends on their activities, and this knowledge and skills allows them to cope with turbulence and uncertainty in the economic environment. In these circumstances, the importance of

knowledge and skills that are embedded in organizational capabilities is increasing. Success in the process of transferring the knowledge and skills of organizational members into organizational capabilities depends on the capability of the organizational leadership coordinating this process. Therefore, organizations with high organizational leadership capabilities have better performance, higher competitiveness and are also more innovative. This suggests exploring the phenomenon of organizational leadership capability and its relationship to organizational functioning and organizational performance, and opens up additional aspects and supplements our understanding for increasing the effectiveness of organizations.

### **The aim of the dissertation and its research tasks**

The aim of this dissertation is to take the measure of organizational leadership capability and illustrate it in terms of its relationships to organizational effectiveness on the basis of a sample of Estonian service organizations. The first part of this goal is targeted towards evaluating a method for estimating the capability of organizational leadership, while the second part exemplifies its relationships to organizational effectiveness. In order to achieve this aim, the following research tasks were established:

1. Develop a conceptual framework for organizational leadership capability.
2. Develop a framework for measuring the capability of organizational leadership and formulate research hypotheses for evaluating the properties of organizational leadership capability.
3. Design a measurement tool for evaluating the properties of organizational leadership capability.
4. Evaluate the capability of organizational leadership.
5. Formulate research propositions for an exploratory study of the relationships between the capability of organizational leadership and organizational effectiveness.
6. Make an exploratory study for the investigation of the initial relationships between the capability of organizational leadership and organizational effectiveness.
7. Present implications for improving the capability of organizational leadership.

### **The originality of the research**

Only a few recent studies cover both the collective and organizational aspects of leadership together (e.g. Lichtenstein *et al*, 2006; Hofmann and Jones, 2005; O'Connor and Quinn, 2004; Marion and Uhl-Bien, 2001; Pasternack *et al*, 2001). Mostly, these studies focus on the team as the collective leadership level (e.g. Hiller, Day and Vance, 2006; Day *et al*, 2004; Zaccaro, Rittman and

Marks, 2001) or on the macro (organizational) level of top management (e.g. Garcia-Morales *et al*, 2008; Vera and Crossan, 2004; Boal and Hooijberg, 2000). Additionally, the number of studies marks some essential aspects of leadership at the organizational level as an emergent dynamic phenomenon (e.g. Lichtenstein *et al*, 2006; Hogg, 2001), which has the properties of the whole organization (e.g. Osborn and Hunt, 2007; Marion and Uhl-Bien, 2001) and a relationship with the outcomes of the organization (e.g. Lichtenstein *et al*, 2006; Lieberman and O'Connor, 1972). However, these studies do not really provide a model for evaluating and investigating organizational leadership as a phenomenon across an entire organization. The contribution this dissertation makes is to the theoretical conceptualization of organizational leadership capability with the creation of a framework that makes it possible to measure organizational leadership at the level of the entire organization. It is important here that the framework allows us to estimate the capability of organizational leadership embedded in the organization as an internal resource.

Another novel aspect of the dissertation is the measurement framework with its instrument for measuring organizational leadership capability. The author of the dissertation has developed a new measurement instrument and examines its use for evaluating the capability of organizational leadership. Although many scholars have discussed different approaches to and perspectives on leadership at the collective level, only a few of them have made any attempt to examine this. Investigations have primarily ended with qualitative models, such as Day *et al* (2004), Zaccaro *et al* (2001), O'Connor and Quinn (2004), or are a qualitative examination (using case studies) as in the work by Denis, Lamothe and Langley (2001). The other investigations examine collective leadership quantitatively as in Hiller *et al* (2006), and Hofmann and Jones (2005), but they are not examining leadership capability embedded in the structure of organizations. Both of these studies have used measurement instruments not specially designed for the measurement of leadership at the collective level. Hiller *et al* (2006) have used the Managerial Practices Survey (validated by G. Yukl and R. Lepsinger in 1990) by reducing it from eleven to four dimensions. Hofmann and Jones (2005) have used two instruments in their study: the Multifactor Leadership Questionnaire 5x short form developed by B. M. Bass and B. J. Avolio in 1995 and Goldberg's adjective-based measure of the Big Five from 1992, which was reduced to ten adjectives. The other study conducted by Pasternack *et al* (2001) evaluated organizational capabilities in terms of leadership capacity as a strategic asset of organizations. They have used their own survey of Institutional Leadership Quotient, where 65 statements have been drawn into twelve enabling systems and into two dimensions – organizational orientation (alignment) and organizational adaptability, which was carried out only at the level of managers. The questionnaire for Organizational Leadership Capability developed by the author captures the same dimensions – organizational orientation and adaptation – formed from the three main factors. But as opposed to Pasternack's *et al* (2001) Institutional LQ, it focuses on all organizational members in order to evaluate the capability of

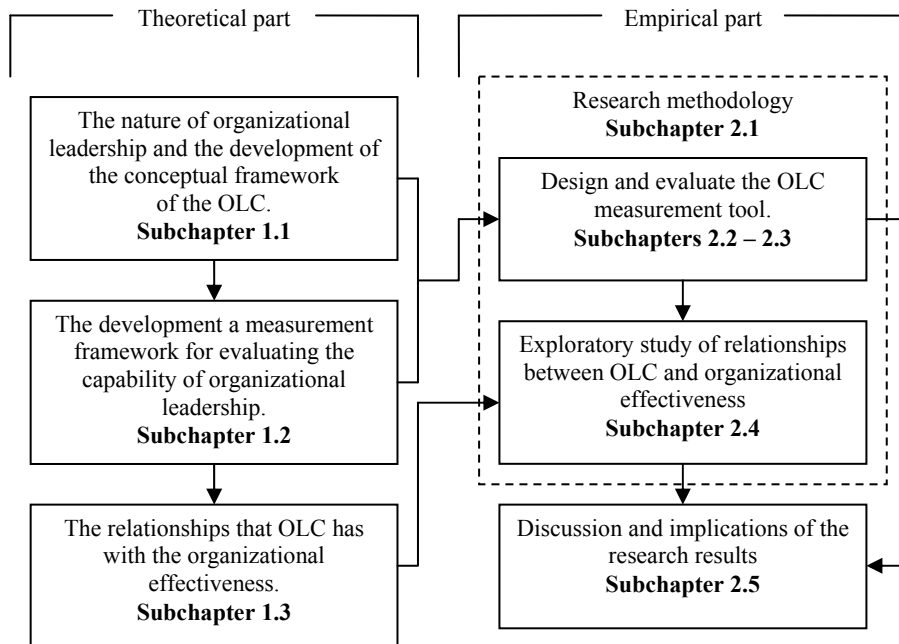
leadership at the level of the entire organization not only at the level of managers.

Moreover, the dissertation explores the initial relationships between the capability of organizational leadership and organizational effectiveness in Estonian service organizations. Organizations in service industries use a wide range of their members' knowledge and skills that have been integrated into the organization's capabilities. For example, Segal-Horn (2003:483) shows that knowledge is often a special asset in services, and the capability to acquire, process and analyse information is the key asset or core competence for many services. In turbulent and uncertain conditions, organizational success depends highly on such organizational capabilities and their configuration. In these circumstances the organizational leadership capability as the conductor, which are configuring and reconfiguring these organizational capabilities, becomes the most essential factor by securing organizational effectiveness. Estonia has experienced rapid and fast growing development with the substantial changes in its economic structure, where services are becoming the dominant sector – as in advanced economies – approximately 2/3 of the total economy. The service sector in the Estonian economy has increased from 39.9% of GDP in 1990 (Campos and Dabušinskas, 2009:263) to 71.0% of GDP in 2009 (Statistics Estonia, 2010). Therefore, Estonian service organizations provide a good opportunity to explore the phenomenon of organizational leadership capability in terms of its relationship to organizational effectiveness.

The topic of this dissertation is mainly theoretical; it develops the concept of collective leadership for the entire organization. The resulting conceptual framework makes it possible to expand our knowledge of the complexity of leadership at the organizational level on the one hand, and on the other to create an instrument for the assessment of organizational leadership capability in organizations. The instrument in this dissertation allows us to assess the capability of organizational leadership by providing general or global measures, albeit that requires further interpretation. Therefore, the exploratory research opens up the initial relationships between the capability of organizational leadership and organizational effectiveness, and provides a primary interpretation of this type phenomenon of leadership. From the practical point of view, this instrument for assessing the capability of organizational leadership provides support to help managers increase the quality and efficiency of management in every day practice. The main factors, values and gaps between values measured by the tool for measuring organizational leadership capability provide managers with signals and information about the kind of managerial and organizational processes that should be taken into focus in order to improve managerial efficiency. Also, knowledge that has been systemized in the theoretical part of the dissertation for the development of the conceptual and measurement frameworks can help leaders and managers to develop organizations and their strategies and secure success.

## The structure of the dissertation

The present dissertation consists of two parts. The first part creates the theoretical and conceptual basis for the research. The second part of the dissertation consists of empirical research, which is divided between the evaluation of organizational leadership capability and the initial exploration of its relationships to effectiveness in Estonian service organizations. The structure of the dissertation is presented in figure 1.



**Figure 1.** The structure of the dissertation

Source: compiled by the author

Note: OLC – Organizational Leadership Capability

Subchapter 1.1 of the theoretical part analyses and systematises the theoretical approaches to multi-level leadership in existing literature. This analysis marks the foundation of collective leadership at the organizational level, which forms the basis for the development of the conceptual framework of organizational leadership capability. The resulting conceptual framework of organizational leadership capability is formed from the synthesis of the three groups of base theories – traditional leadership theories, the resource-based view from strategic management and complexity theory from system theories. These conceptual

sources present the main characteristics that determine the nature of organizational leadership capability and are the basis for its measurement.

Subchapter 1.2 is concerned with the creation of the framework for measuring organizational leadership capability. In the measurement framework, two main dimensions – organizational orientation and organizational adaptation – divided into three main factors that aggregate high-dimensional organizational behaviour into low-dimensional behaviour, were used in the design of the measurement instrument, the Questionnaire of Organizational Leadership Capability. The creation of the measurement framework includes the development of a methodology for utilizing it for evaluating the capability of organizational leadership. For this purpose, the wholeness behaviours of an organization were measured using interactions between the main factors of organizational leadership, which were defined as organizational cohesiveness and the collective ability of organizational members to explain their everyday activities within the strategic objectives. In order to explore the pattern of factors in defined interactions, hypotheses were set that focus on interactions in relationships with organizational performance.

In subchapter 1.3 the main interest is to exemplify and make a preliminary investigation into how the capability of organizational leadership relates to organizational effectiveness. The relationship to organizational effectiveness is investigated from two perspectives – in terms of organizational functioning and organizational performance. Organizational functioning includes the external and internal behaviour of the organization where external behaviour covers characteristics of the industry and the competitiveness of an organization in a single industry, and internal behaviour covers job satisfaction among its employees. Organizational performance includes two types of measures: financial and non-financial performance measures. Financial performance measures cover traditional financial measures that indicate organizational growth (changes in sales), change in the efficiency of organizations (changes in profit), efficiency of sales and assets (return on sales and return on assets), and non-traditional measures that indicate the efficiency of the intellectual capital of organizations. Non-financial performance measures cover the corporate social responsibility and ethical behaviour of organizations.

Subchapter 2.1 in the empirical part of the dissertation provides an overview and description of the research methods used in subchapters 2.2–2.4. The design of the Questionnaire of Organizational Leadership Capability is the focus of subchapter 2.2. The questionnaire according to the measurement framework in subchapter 1.2 includes three main factors – alignment and cohesion, the architecture of the internal network, and the control-feedback system. The architecture of the internal network includes two sub-factors – external centralisation and informal communication with organizational performance as an extra dependent factor. Six organizations – five from the service sector and one from the industrial sector – with a total sample size of  $n=445$  participated in this stage of the investigation. The individual statements of the questionnaire for each factor were analysed using the Partial Least Squares regression.



Subchapter 2.3 focuses on verifying the pattern of organizational leadership capability factors in their interactions defined in subchapter 1.2. Eight organizations offering financial services with a total sample size of  $n=555$  participated in this stage of investigation. Individuals and objective performance measures were assessed to verify the pattern of organizational leadership capability using a method of triangulation. The Ordinary Least Squares regression estimates the pattern of organizational leadership capability factors using individual assessments. The quartile method estimates the same, but differently using the aggregated values of individual assessments with financial performance indicators of eight organizations for this purpose.

Subchapter 2.4 presents the exploratory study of the relationships between organizational leadership capability and organizational effectiveness. Different methods such as document analysis, interviews, mean values ranking, paired-samples t-tests and Spearman's rank were used during this stage. The results illustrate the relationship between organizational leadership capability and the character (high-skill and low-skill) of services, competitive behaviour, extrinsic job satisfaction, financial performance indicators (especially those that denote intellectual capital) and the social responsibility of the organization. Relationships were not confirmed using traditional performance indicators, rather intrinsic job satisfaction of employees and the ethical behaviour of the organization.

Subchapter 2.5 summarizes and discusses the results from subchapters 2.2 and 2.3, and the findings from subchapter 2.4. Finally, the last part of this subchapter presents the conclusions and implications for increasing the capability of organizational leadership and organizational effectiveness.

## **ACKNOWLEDGEMENT**

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Finally, I declare my full responsibility for all mistakes and errors that may be found in this dissertation.

# **I. THE THEORETICAL FOUNDATION FOR DEVELOPING A CONCEPTUAL FRAMEWORK OF ORGANIZATIONAL LEADERSHIP CAPABILITY IN SERVICE ORGANIZATIONS**

## **I.1. The concept and development of organizational leadership capability**

During the last two decades, leadership at the collective level has come under greater focus (e.g., Hiller, Day and Vance, 2006; Day *et al*, 2004; O'Connor and Quinn, 2004; Mayo, 2001; Marion and Uhl-Bien, 2001; Osborn and Hunt, 2007; Zaccaro *et al*, 2001). This has arisen from the need to transfer the leadership capabilities of individuals, which allow organizations to perform on a daily basis with long-term success, to the strategic assets of organizations. That means leadership capabilities that are based on the leadership skills and knowledge of different organizational members on one the hand, and the extent to which these skills and knowledge are embedded in the structure of an organization on the other.

Leadership exists at both the individual and the collective level (table 1), the sum of which forms organizational leadership. However, the traditional view of leadership presumes the top-down influence of the leader on followers, where the leader is the primary originator and conductor of leadership (Drath, 2001; Pearce and Conger, 2003). Leadership is also a property of the whole organization (O'Connor and Quinn, 2004), where collective leadership qualities are embedded in the organization's systems and structure (Pasternack *et al*, 2001). This is important to mention because the success of an organization as a whole depends not on the performance of some remarkable individuals, but on the collective contribution of all members (Jacobs, 1981). For such success to occur, many people have to support the well being of the organization and the organization should be aware of its members' desires to support their organization and understand the essence of collective work.

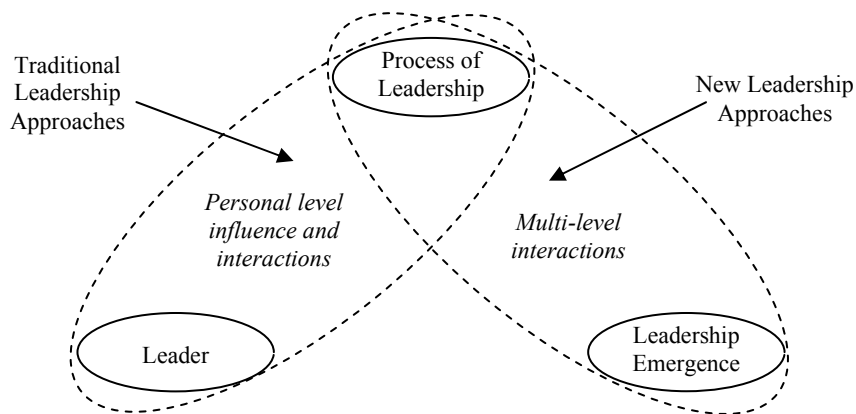
**Table 1.** Main principles of leadership at the individual *versus* the collective level

Individual level	Collective level
a) attention to goals	a) shared common goals
b) leaders' competences and skills with these developments	b) individuals leadership competences and skills with these development
c) interpersonal influence (takes place in:	c) interactive influence among individuals (takes place in:
– power relationships between leader and followers;	– communication between collective members;
– transformational process between leader and followers)	– coordination process between collective members)

Source: compiled by the author on bases Northouse (2007), Day *et al* (2004), O'Connor and Quinn (2004), Gronn (2002)

The new leadership approaches at the collective level are distinct from traditional approaches to leadership. The new leadership approaches emphasize multi-level interactions across all levels of an organization as opposed to traditional approaches in which leader influence is based on interactions at the personal level (figure 2). From this point of view, Stacey (2010:81) states that leadership is a system phenomenon transcending individuals and relationships defined in terms of interaction between heterogeneous agents across a network.

The process of leadership, which is common to both traditional approaches and the new systemic approaches to leadership (figure 2), is always aimed towards the achievement of goals (e.g. Northouse, 2007; Sydänmaanlakka, 2003), and in this sense, the effectiveness of leadership is an important issue in all studies of leadership. Most empirical studies of leadership effectiveness during the past half century have involved middle or lower-level managers (Yukl, 2008) at the individual level of leadership. In recent years, many scholars have turned their attention to leadership effectiveness at different collective levels such as at the level of teams, groups and the whole organization. While Day *et al* (2004) view leadership as an outcome of effective social processes in teams, Marion and Uhl-Bien (2001) turn to the organizational level by viewing leadership from the perspective of complexity theory with its ability to influence organizational effectiveness. These organizational level approaches to leadership have grown from a variety theories of system science trying to explain organizational effectiveness mainly in terms of the functioning of the organization.

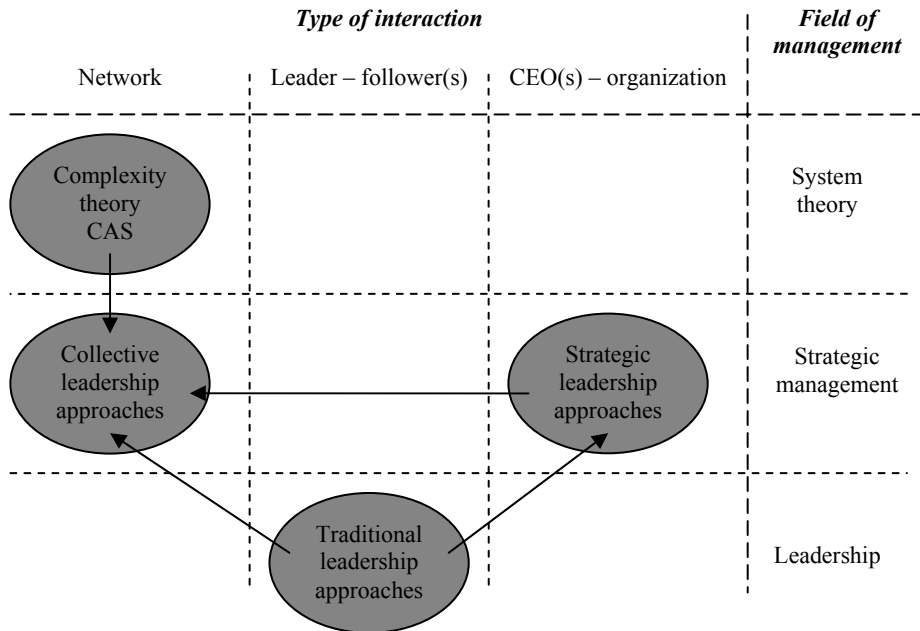


**Figure 2.** Distinctions between the main aspects of traditional and new approaches to leadership

Source: compiled by the author

Leadership approaches at the collective level arise from the substantial variety of different theories of management, which are all rooted in traditional approaches and theories of leadership. Different types of interactions in the leadership process with their levels of analysis have been highlighted by different theories of management (figure 3). Traditional leadership approaches and theories (trait, skill, style, situational, contingency, path-goal, leader member exchange and transformational leadership approaches) focus on leader-follower relations (Northouse, 2007) at the micro level (individual and group) (Bass, 2006) that are the basis for the higher-level – strategic and collective – leadership approaches (figure 3).

Strategic leadership approaches focus on the leadership force in the process of gaining organizational performance and long-term success by establishing the best organizational fit with its external environment. Leadership here is viewed as the top-down influence of top managers at the macro (organizational) level (e.g. Bass, 2006; Boal and Hooijberg, 2000). Many scholars explain strategic leadership in terms of transformational leadership (e.g. Vera and Crossan, 2004; Boal and Hooijberg, 2000), which was brought out by Minzberg *et al* (2005: 136) as visionary leadership. In addition, charismatic-visionary and architectural are two roles of strategic leadership suggested by de Vries (1996). However, the individual domain of leadership dominates in this type of leadership, which has been moved to the level of the strategic processes in the entire organization.



**Figure 3.** The development of collective leadership approaches

Source: compiled by the author

Note: CAS – Complex Adaptive System

There are three different fields of management – traditional leadership, strategic management and complexity theory (figure 3) – and each of them have brought essential approaches to the concept of collective leadership. Table 2 summarizes these main approaches in accordance with their source theories. Each of these approaches brings up important and specific factors that mark the main properties of leadership at the collective level. In the first, multiple leadership created by collective collaborative processes, and which cascades throughout the entire organization, is one important characteristic of collective leadership. In the second, leadership is embedded throughout the organization – in its strategy and structure, which are dynamically interdependent of each other (Candler, 1962; Kay, McKiernan and Faulkner, 2003) – and stresses the importance of strategic thinking at all levels of the organization (Bonn, 2005), which is the basis for the creation of organizational capabilities (Leidtka, 2008). Finally, leadership that emerges through the interactions of interdependent agents (organizational members), and which is regulated by a self-organization mechanism (Stacey, 2010:79), came from complexity theory. These are the fundamental characteristics of leadership at the collective level.

**Table 2.** Analysis of characteristics of collective leadership from different approaches

Approaches based on traditional leadership theories	Approaches based on strategic management theories	Approaches based on the complexity theory
<p><b>Authentic leadership</b> – multiple leadership (Yammarino, Dionne, Schriesheim and Dansereau, 2008)</p> <p><b>Distributed leadership</b> – multiple leadership (Yukl, 2008; Gronn, 2002)</p> <p><b>Collective leadership</b> – collective activity (Hiller <i>et al</i>, 2006; O'Connor and Quinn, 2004)</p> <p><b>Intelligent leadership</b> – shared and collaborative process (Sydänmaanlakka, 2003)</p> <p><b>Cascade leadership</b> – transformational leadership cascades throughout organization (Avolio and Bass, 1995)</p>	<p><b>Strategic leadership</b> – dynamic collective action extended beyond focal organizational boundaries (Denis <i>et al</i>, 2001); embedded in strategy (Osborn, Hunt and Jauch, 2002); embedded in the whole organization (Morrill, 2007)</p> <p><b>Institutional leadership</b> – embedded in the structure and systems (Pasternack <i>et al</i>, 2001)</p>	<p><b>Complexity leadership</b> – interactions between heterogeneous agents across a network (Stacey, 2010); leadership emerges through interactions (Lichtenstein <i>et al</i>, 2006)</p> <p><b>Complex leadership</b> – behaviour and direction of an organizational system emerges through interactions (Marion and Uhl-Bien, 2001)</p> <p><b>Network leadership</b> – information process in social system (Osborn <i>et al</i>, 2002)</p> <p><b>Organic leadership</b> – interactions among important elements (people) (Avery, 2006)</p>

Source: compiled by the author

The outcomes of the leadership process are another important aspect that distinguishes the different leadership approaches. This is directly connected to the type of interaction among organizational members that collide with certain approaches (figure 4). Traditional leadership approaches use outcomes such as the degree of satisfaction, commitment, loyalty, individual performance, absenteeism, less turnover of employees at the individual level, cohesion, positive climate, learning and social capital at group and team level (Yammarino *et al*, 2008; Day *et al*, 2004). All these outcomes represent individual or group efficiency. Organizational level effectiveness measures such as innovation, organizational growth and fit to the environment use approaches from complexity theory (Marion and Uhl-Bien, 2001; Osborn and Hunt, 2007). As opposed to complexity theory approaches, strategic leadership approaches use both financial performance measures (e.g. profitability, sales) and non-financial performance measures (e.g. market share and social responsibility) (Boal and Hooijberg, 2000; Yukl, 2008), and effectiveness in terms of organi-

zational learning has also used been in strategic leadership studies (e.g. Vera and Grossan, 2004).

	Organizational effectiveness	Business performance	Outcome of processes
Domain of leadership			
Individual	Traditional leadership approaches ( <i>leader-follower interactions</i> )	Strategic leadership approaches ( <i>CEO(s) - organization interactions</i> )	
Organizational	Complexity theory approaches ( <i>network interactions</i> )	Collective leadership approaches ( <i>network interactions</i> )	Organizational effectiveness

**Figure 4.** Different outcomes from different types of leadership approaches

Source: compiled by the author on bases Garcia-Morales *et al* (2008), Yukl (2008), Yammarino *et al* (2008), Osborn and Hunt (2007), Hofmann and Jones (2005), Vera and Crossan (2004), Zaccaro *et al* (2001), Boal and Hooijberg (2000),

It is necessary to use both types of outcomes – organizational effectiveness and business performance<sup>1</sup> – when looking at leadership at the organizational level (figure 4). Also, the effectiveness of an organization could be an intermediate outcome of leadership that influences business performance. Garcia-Morales *et al* (2008) have shown that organizational learning and innovation as outcomes of leadership are related to organizational performance at the same time.

Several authors have discussed the broad variety of notions of leadership at different collective levels (group, team and organization). In this dissertation the organizational level, where the leadership has been embedded in the structure of an organization across all organizational levels, is considered of primary importance. The conceptual construct of organizational leadership as the capability of an organization considers the following prerequisites: (1) the properties of organizations as social systems revealed in the relations and interactions of its parts as a holistic entity, not as the sum of independent parts; (2) multi-level skills, knowledge and abilities form organizational capabilities where leadership is just one of them; (3) leadership has the property of a complex process

<sup>1</sup> The narrowest conception of business performance uses outcome-based financial indicators. A broader conception adds to financial indicators operational performance indicators (e.g., market share, product quality) as well (Garcia-Morales *et al*, 2008).



revealed in relations between organizational members. Three main groups of theories as conceptual sources cover the abovementioned prerequisites: system theory, the resource-based view (RBV), and leadership theories.

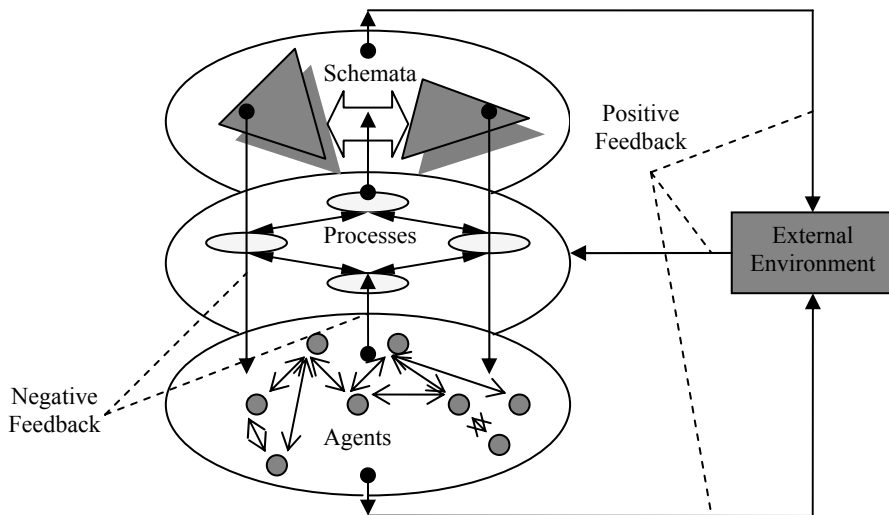
### *System theory*

System theory makes it possible to explain the wholeness of multi-level leadership created on the basis of a set of interacting individuals at different levels of an organization. Drawn from diverse work in the physical, biological and social sciences, system theory includes laws and principles that apply to all levels of a system, from single cells to society (Cummings, 2006). In the generalized theory of systems (general system theory – GST), von Bertalanffy (1968) outlines the ontology and epistemology of systems, which mark the basic principles of different applications of system theory (e.g. organizational theory, sociology and socio-cybernetics, software and computing, system psychology etc.). From general system theory, Kurt Lewin (Ash, 1992:199), Jay Forrester and Stafford Beer (Capra, 1996:76) developed the earliest approaches of organizational theory, and Checkland (1981) and Ulrich (1984) developed the most recent approaches, where Ulrich (1984) views business organizations as living social systems.

Complexity theory – the latest development in system theory – views organizations as complex adaptive systems (CAS) in changing environments. According to Holland's (1992) definition, CAS is a dynamic network of many agents acting in parallel, constantly acting and reacting to what the other agents are doing. Scholars of complexity theory (e.g. Holland, 1992; Kauffman, 1995; Thietart and Forgues, 1995; Dooley, 1996; Anderson, 1999; Morel and Ramanujam, 1999) emphasize self-organization and adaptation – properties of CAS that arise from interactions between the elements and parts (agents) of CAS. In CAS, agents are connected to one another by feedback loops (Anderson, 1999), which regulate interactions not only between agents, but also between agents and other organizational aggregated parts (e.g. meta-agents, processes) and the external environment as well. These interactions carry the communication and cooperation processes between agents in social networks (Carroll and Burton, 2000), which govern the conversion of knowledge in organizations (Takeuchi and Nonaka, 2002). Therefore, the relationships between the agents in CAS are more important than the agents themselves because these relationship connections allow for the transaction and interpretation of information and the generation new information.

Complexity theory has an impact on all scientific disciplines whether they study natural, human or social phenomena (Jackson, 2007). Morel and Ramanujam (1999) argue about two important areas in organization theory via the influence of complexity theory. These are evolution of organization forms and social network analysis. According to this, organizations as CAS are social entities with self-organization dynamics (Anderson, 1999). Moreover, complexity theory views organizations from a holistic perspective where the wholeness of an organization emerges from the relationships between the organizational

members (Jackson, 2007) or the parts of an organization (Capra, 1996). This emergence is the unpredictable arising of global, higher-level, properties from lower-level self-organization understood in terms of the simple rules of agent behaviour (Stacey, 2010). These simple rules, called schemata, form a cognitive structure that determines the actions of agents (Anderson, 1999). Capra (1996) calls these the basic principles through which the system behaves as an entirety. This emergence behaviour is based on global properties possessed by entities, which are not reducible to the components and subparts of the entities. For example, “neural networks” in the psychological characteristics of the human brain cannot be explained in terms of just one neuron or even many neurons taken independently. The behaviour of CAS emerges in the interconnections and interdependence of the agents – or the neurons in our example. Figure 5 illustrates the emergence of system wholeness.



**Figure 5.** The emergence of system wholeness

Source: compiled by the author on bases Holland (1992), Capra (1996), Anderson (1999), Morel and Ramanujam (1999)

The idea of leadership arises from decision-making and control, which spreads throughout relational networks (Jackson, 2007) where agents of CAS are connected to each other by feedback loops (Anderson, 1999). Stacey (2010) highlights that leadership is an emergent outcome of relational interactions between agents in CAS, and Marion and Uhl-Bien (2001) draw attention to the leadership that creates distributed intelligence – the networked intellectual capabilities of human agents. Earlier, Dachler (1992) claimed that leadership can be embedded in the dynamics of a social system. Complexity theory

describes organizations and their behaviour from the perspectives of CAS, where leadership skill and the knowledge of agents are integrated through interactions between heterogeneous agents across a network. Therefore, embedded leadership knowledge and skills emerge as the ability of the entire organizational system acting as one.

#### *Resource-based view*

RBV explains the link between the wholeness behaviour in CAS and the leadership phenomenon by integrating the leadership skills and knowledge of organizational members as the capabilities of the organization. From this point of view, RBV opens up the multi-level phenomenon of leadership by putting the knowledge, skills and abilities of leadership at the individual and collective level together. Knowledge and skills existing at the individual level combined with abilities to integrate them at the organizational level and form organizational capability with its dynamic nature (Grant, 1996; Helfat and Peteraf, 2003). Wright, Dunford and Snell (2007) view this as dynamic capabilities that embrace intellectual capital (human, social and organizational capital) and knowledge flows (knowledge creation, transformation and integration) between individuals and different levels of the organization. These all explain the creation mechanism of multi-level leadership, where leadership at the individual level and at different collective levels is interlaced.

The RBV on the origins of competitive advantage has become one of the standard theories in strategy. RBV focuses on the resources and capabilities of the organization, which forms the core competences (McGee, 2006) or strategic assets (Amit and Schoemaker, 1993) of the organization. Amit and Schoemaker (1993) define resources as stocks of available factors that are owned or controlled by the organization. Grant (1991) describes them as inputs into the production process, which consist, *inter alia*, of know-how that can be traded (e.g. patents and licenses), financial or physical assets (e.g. property, plant and equipment), human capital, etc. (Grant, 1991; Amit and Schoemaker, 1993). Capabilities, by contrast, refer to an organization's capacity to deploy resources, usually in combination using organizational processes to affect a desired end (Amit and Schoemaker, 1993). In Makadok's (2001) view, a resource is an observable (but not necessary tangible) asset that can be valued and traded – such as a brand, a patent, a parcel of land or a license. A capability, on the other hand, is not observable (and hence necessarily intangible), cannot be valued, and changes hands only as part of its entire unit (Hoopes, Madsen and Walker, 2003).

If “resources” describes inputs that can, in general, be purchased on open markets and customized for use by the purchasers, then “capabilities” by contrast are organization specific (McGee, 2006a; Makadok, 2001). Collis (1994) draws out the importance of organizational capabilities as a valuable resource of competitive advantage. According to the logic of RBV, capabilities are not only valuable and rare, but also inimitable, immobile, and non-substitutable (Eisenhardt and Martin, 2000). These organizational

capabilities are coordination and teamwork, commitment and trust, competences (technical and leadership), open communication, creativity, and the capacity for constructive conflict and learning (Beer, 2001). Collis (1994) divides them into three categories. The first category of capabilities are those that reflect an ability to perform the basic functional activities of the organization, such as plant layout, distribution logistics, and marketing campaigns, more efficiently than competitors. The second category of capabilities shares the common theme of dynamic improvement of the activities of the organization. The third category of capabilities, although closely related to dynamic improvements, comprises the more metaphysical strategic insights that enable firms to recognize the intrinsic value of other resources or to develop novel strategies before competitors. Moreover, capabilities are not only organization specific, but also embedded in the organization and its processes, while ordinary resources are not (Makadok, 2001). Collis (1994) expresses more precisely that organizational capabilities are embedded in organizational routines, and those routines are a product of the organization as an entire system.

From the perspective of competitive advantage, organizational resources without capabilities are useless. Therefore, organizational capabilities refer to the ability of an organization to perform a coordinated set of tasks, utilizing organizational resources, for the purpose of achieving a particular end result (Helfat and Peteraf, 2003). Nowadays, in the modern economic environment, the central task of management is to create organizational knowledge and secure its use in the every day performance and long-term success of organizations (e.g. Nonaka and Takeuchi, 1995; Stewart, 1997; Sveiby, 1997; Roos, J., Roos, G., Edvinsson and Dragonetti, 1998; Skyrme, 2002; Bontis, 2002; Edvinsson, 2002). From this point of view, Grant (1996) stresses knowledge as the most strategically significant resource of the organization. He distinguishes knowledge for resources and organizational capabilities. If knowledge as an organizational resource resides in a specialised form among individual organizational members (created and stored by individuals in a specialised form), then the essence of organizational capability is the integration of the individual's specialised knowledge (Grant, 1996) (figure 6).

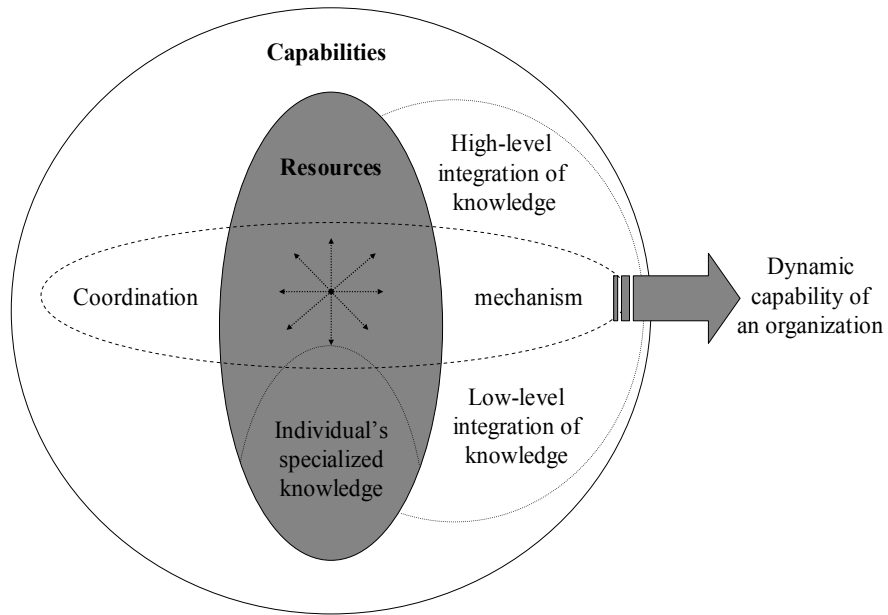
The same two-way distinction has been used in the concept of intellectual capital – human and structural capital (Roos *et al*, 1998; Edvinsson, 2002). This is important because the strategic stream of the intellectual capital concept deals with the creation and use of knowledge, as well as the relationship between knowledge and success or value creation (Roos *et al*, 1998). Human capital here, as an organizational resource (Amit and Schoemaker, 1993) represents the knowledge of individual organizational members, and structural capital represents organizational capabilities as the integrated knowledge of the organization. Also, it is important to mention that structural capital instead of human capital could not be rented from the market, but only built and owned by the organization. Therefore, Roos *et al* (1998) define structural capital as an organizational asset of intellectual capital that remains in the organization when employees go home for the night. Moreover, Roos *et al* (1998) argue about the

internal flows of intellectual capital; that is, the transformation of human capital into structural capital and *vice versa*. Helfat and Peteraf (2003) explain this by exercising capabilities, which refresh the organizational memory. They also emphasize that through the regularity of the exercising mechanism, these capabilities become more deeply embedded in the memory structure of the organization.

To cite Teece, Pisano and Shuen (1997), “Indeed, firm capabilities need to be understood not in terms of balance sheet items, but mainly in terms of the organizational structures and managerial processes which support productive activity”. From this point of view, managerial activity appears to be a key issue in utilizing organizational capabilities to bring about the desired end results of an organization. In terms of capabilities, managerial activity involves a knowledge integration and coordination mechanism across all organizational levels. Grant (1996) views this integration of knowledge into organizational capabilities as a hierarchy. This hierarchy is not one of authority and control, as in the traditional concept of an administrative hierarchy of integration. At the base of the hierarchy is the specialised knowledge held by individual organizational members (including tacit knowledge as well), which is a significant resource for an organization. At the first level of integration there are capabilities that deal with specialised tasks and at higher levels of integration there are capabilities that require wide-ranging cross-functional integration (Grant, 1996). Kogut and Zander (1992) call this “combinative capabilities” to describe organizational processes by which organizations synthesize and acquire knowledge resources, and generate new applications from those resources. Moreover, Grant (1996) admits that the architecture of capabilities – effectively integrated knowledge across an organization – has some correspondence with the organization’s structure of authority, communication, and decision-making, whether formal or informal. This is sustained by Collis (1994), who claims that organizational capabilities are not only manifestations of observable corporate structures and processes, but also reside in the corporate culture and network of employee relations. All this indicates that organizational capabilities and organizational structure are interlaced with each other in a way that results in the rate of innovation in organizations.

More valuable capabilities concern the rate at which organizational structures that produce rapid innovations were innovating (Collis, 1994). Scholars have defined such organizational innovative behaviour as dynamic capability (e.g. Teece, 2009, 2007; Hoopes *et al*, 2003; Winter, 2003; Helfat and Peteraf, 2003; Zollo and Winter, 2002; Makadok, 2001; Eisenhardt and Martin, 2000). The term “dynamic” refers to the capacity to renew competences so as to achieve congruence with the changing business environment, and the term “capability” emphasizes the key role of strategic management to reconfigure organizational (internal and external) skills, resources and functional competences to match the requirements of a changing environment (Teece *et al*, 1997). The activity of collective learning as a cyclical evolution of organizational knowledge from where dynamic capabilities arise is also important (Zollo and

Winter, 2002). Teece *et al* (1997) add coordination and configuration, which along with learning constitute organizational and management processes. Earlier, Grant (1991) pointed out that capabilities involve complex patterns of coordination between people and between people and other resources (figure 6). Teece (2007) mentioned the same coordination mechanism using the term “management capability” in the context of the innovative behaviour of successful organizations.



**Figure 6.** The creation of organizational capabilities by combining resources and capabilities  
Source: compiled by the author

Management capability involves not only managerial work but leadership as well. According to Teece (2007) and Rosenbloom (2000), leadership skills are required to sustain the dynamic capabilities of an organization. Moreover, Teece (2009) states that the lines between managerial and non-managerial work (leadership) are becoming blurred. Due to project work that requires collaboration between people with different skills, the requirements for horizontal relationships among diverse groups, sometimes including professionals outside the enterprise, demands that leadership expands. In such dynamically-competitive knowledge-based organizations, leadership should be exercised by people at all levels (Teece, 2009). Therefore, the coordination mechanism governed by leadership across all organizational levels is embedded in different levels of the integration of knowledge. The coordination mechanism with the properties described above, reveals as the organizational capability of leadership.

### *Leadership theories*

The concept of organizational leadership capability is rooted in leadership theories with a wide variety of different theoretical approaches to explain the complexities of the leadership process emerging from the individual and the collective level. These approaches all involve influence between the leader and the followers, which arises from the applied competences of the leader. From the individual level, the skill approach emphasizes the knowledge, skills and abilities that are needed for effective leadership (Northouse, 2007). The skill approach describes leadership as the capabilities (knowledge and skills) that make effective leadership possible (Mumford, Zaccaro, Harding, Jacobs and Fleishman, 2000). From the collective level, knowledge, skills and abilities are emphasized by Day *et al* (2004), in their team leadership cycle model, as resources that distinguish the leader from the team members.

Leadership theories use different perspectives to define leadership as a power relationship, a transformational process, and finally, a skills perspective (Northouse, 2007). These perspectives are all extremely important in understanding how organizations produce collective leadership from personal leadership domains.

Leadership skills and knowledge at the individual level are the source of the power relationship that exists between leaders and followers. Power here is defined as the capacity to influence and control the behaviours of others (Galinsky, Gruenfeld and Magee, 2003). Also, power is divided into personal and social power (Overbeck and Park, 2001). Personal power is the capacity to influence that a leader derives from being seen by followers as likable and knowledgeable. When leaders act in ways that are important to followers, it gives the leaders power (Northouse, 2007). Keltner, Gruenfeld and Anderson (2003) stress that power is a basic force in social relationships, and the power that is derived through one's relationship to others is called social power (Galinsky *et al*, 2003).

Transformational processes of leadership take place in power relationship interactions (both informal and formal interactions) between organizational members. These processes are concerned with emotions, values, ethics, standards and long-term goals, and include assessing followers' motives, satisfying their needs and treating them as full human beings (Northouse, 2007). As these interactions carry such transformational processes, emergent leadership arises (Northouse, 2007) and cascades throughout the organization resulting in increased levels of assistance, cooperation and development among employees (Avolio and Bass, 1995). Moreover, in such interactions power is seen as the capability of actions to secure outcomes where the realization of these outcomes depends upon the agency of others (Giddens, 1993). Therefore, personal power as the capacity of leadership based on leadership skills and knowledge in the process of its realization through interactions in power relationships is revealed as leadership capability.

Approaches to leadership at the collective level represent a holistic view of leadership and differ from the traditional views of leadership that focus on the personal influence that an individual leader has on his or her followers. Already

half a century ago, Gibb (1954) characterised leadership as a set of functions that must be carried out by the group through interpersonal actions. Hofmann and Jones (2005) in their work show that leadership emerges in interactions between people in a team, group or organization that has a collective personality. However, the epicentre of collective leadership is the coordination process that leads collective members to task success by sharing in leadership qualities between collective members (Zaccaro *et al*, 2001). All these coordination processes are dynamic in nature: on the hand one, they are processes where interactive influences among individuals make them work together as a collective; and on the other, they are processes where the collective as a social system operates and responds with respect to environmental dynamics. Thus, there are grounds for proposing that dynamics is the criterion for the systematisation of collective leadership theories. Three different types of leadership dynamics have been observed below (table 3).

First, leadership dynamics is based on relationship-connectivity between collective members. From this viewpoint, Avolio and Bass (1995) discussed how the aspect of individual consideration in transformational leadership can cascade throughout the organization and result in increased levels of assistance, cooperation, and development among employees. The same cascading flow of leadership in relationship-connectivity between organizational members at the team level has been described as distributed (or shared) leadership by Gronn (2002), Day *et al* (2004), and as collective leadership by Hiller *et al* (2006). At the organizational level O'Connor and Quinn (2004) view this as an organization's capacity for leadership.

Second, leadership dynamics are based on organizational processes that are embedded in leadership. In approaching leadership as the processes in systems, leadership as a collective phenomenon is a part of a holistic configuration of components within a group or organization (Hunt and Ropo, 1997). Additionally, Hunt and Dodge (2001) argue that relationships between collective members is the strongest form, and functions as a dynamic system embedding leadership. Similarly, Morrill (2007), and Denis *et al* (2001) describe strategic leadership as a systematic organizational process that centres on the collaborative and integrative actions of organizational members.

Third, leadership dynamics are based on interactions within entire organizations and the dynamics of the environment. Different authors view leadership from a systemic perspective: Dachler (1992) views it as collective leadership; Avery (2006) as organic leadership; and Pasternack *et al* (2001) and Morrill (2007) view it as institutional leadership. Dachler (1992) discussed leadership as a process embedded in the dynamics of the social system. Leadership in this sense is related to complex systems that contain various subsystems that need to fit together within the overall system (Avery, 2006), which includes the external environment as an important higher-level system. Pasternack *et al* (2001) and Morrill (2007) view leadership in the same way: according to Pasternack *et al* (2001), leadership is embedded in the organization's structure, and systems create an internal alignment and



adaptation with the external environment; according to Morrill (2007), leadership creates the strategic balance within the organization and with the environmental forces that affect it.

Table 3 presents three main leadership concepts and approaches at the collective level. Relational connectivity signifies leadership that reveals itself in lateral relationships between collective members in performance creating processes. Organizational processes signify leadership as a part of a holistic configuration of components within a group or organization. Dynamic state signifies leadership that has been embedded in the whole organizational system and creates a balance within itself and with the higher system – the environment. Moreover, these three types of collective leadership are connected to each other where dynamic connectivity has bound them to the dynamic process, and the dynamic process itself has bound them to the dynamic state (table 3).

**Table 3.** Dynamic types of collective leadership

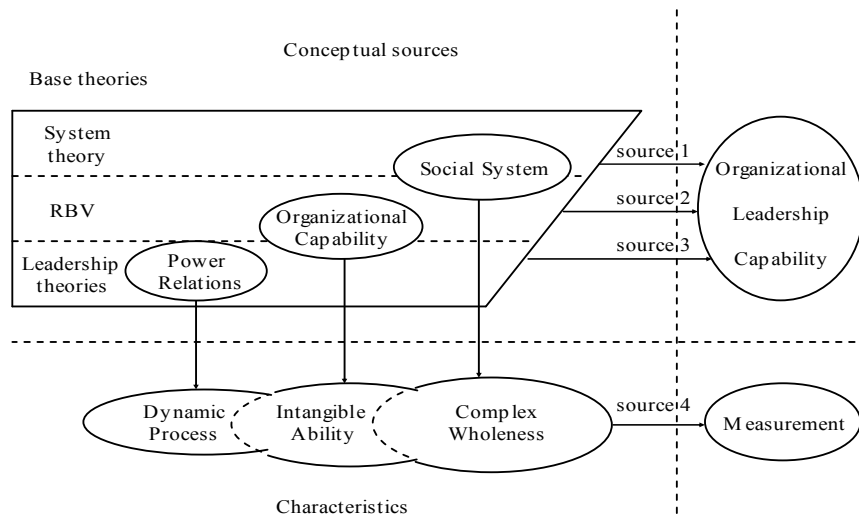
Dynamic types of Collective Leadership	Leadership concepts and approaches
Relational Connectivity	Collective leadership ( <i>Hiller et al, 2006</i> ) Distributed or shared leadership ( <i>Gronn 2002; Day et al, 2004</i> ) Cascading leadership ( <i>Aviolo &amp; Bass, 1995</i> ) Organization's capacity for leadership ( <i>O'Connor &amp; Quinn, 2004</i> )
Organizational Processes	Collective leadership ( <i>Hunt &amp; Ropo, 1997</i> ) Strategic leadership ( <i>Morrill, 2007; Denis et al, 2001</i> )
Dynamic State	Collective leadership ( <i>Dachler, 1992</i> ) Institutional leadership ( <i>Pasternack et al, 2001; Morrill, 2007</i> ) Organic leadership ( <i>Avery, 2006</i> )

Source: compiled by the author

However, the dynamic state of collective leadership exists at the organizational level and could be defined as the collective ability of leadership to detect and cope with changes in the external environment by maintaining the primary goals of the organization. Additionally, according to the perspective of complexity, organizations are complex adaptive systems operating in a turbulent environment. From this perspective, Osborn and Hunt (2007) argue that the primary task of leadership in organizations is to establish a dynamic system where bottom-up structuration emerges and moves the system and its components to a more desirable level of fitness. Organizational leadership defined in this way including the notion of complexity fits with the description of the content of the dynamic state of collective leadership that combines all other forms of leadership dynamics (table 3). In this dynamic state, leadership is revealed as organizational leadership capability, which is the target in developing the measurement tool of organizational leadership capability. This organizational ability describes the efficiency of internal leadership processes allowing organizations

to achieve every day performance with long-term success. The measurement of organizational leadership capability opens up new opportunities for investigating mechanisms of leadership at the organizational level and improving managerial practices in organizations.

In the diagram (figure 7), system theory, RBV and leadership theories are the main sources for the conceptual framework of organizational leadership capability. Each of these main theories describes an important aspect of this organizational phenomenon. While system theory brings out the emergence of a social system with its behaviour through the activities of interconnected agents (CAS), then leadership theories point to the influence of the relationships within these interconnections (between the interconnected agents). In addition, RBV explains how skills and knowledge, which determine the power in these relationships, are integrated within organizational capability as a whole.



**Figure 7.** Conceptual framework for the development of organizational leadership capability

Source: compiled by the author

Note: RBV – Resource-based view

Moreover, each of the theories (conceptual sources) is carried within the main characteristics of organizational leadership capability, which are important for its measurement (figure 7). All leadership, despite its existence at the individual, group or organizational level, is a dynamic process between organizational members (agents). Processes between agents are recurrent with small changes over time, which gives some temporal stability to the relationships between agents. Organizational capability involves the integrated intangible abilities of individuals (agents) with their skills and knowledge embedded in organizational processes and routines. These capabilities are dynamic as well, but instead of processes between agents they are aggregated and organization-specific. Complex whole-

ness involves organizational low-dimensional behaviour guided by the main principles of organizational behaviour that govern organizational processes through the governing behaviour of organizational members (agents).

This concept allows us to evaluate collective leadership as organizational capability and understand organizational behaviour in terms of organizational leadership capability. This knowledge provides managers with direction or guidelines for developing and improving the organizational processes and systems that secure organizational success in a modern economic environment. According to complexity theory, organizations are viewed as a set of processes (Jackson, 2007:124), where leadership is the main process combining all processes together into the ‘effectiveness behaviour’ of the organization. Such a leadership process at the organizational level is guided by teleological and evolutionary principles.

Teleological principles of behaviour favour organizational direction or orientation in the long-term perspective. Many means, such as vision, mission, goals, targets and objectives provide direction, create focus, produce clarity about what is wanted and direct human actions (Nutt, 2008). All these together could be referred to as the “system” goals that cascade through the different leadership domains of an organization. In accordance with Osborn and Hunt (2007), system goals represent both a response to the environment as well as choices regarding how the organization should operate.

The evolutionary principle of behaviour is towards organizational change and fit with the dynamic environment through a process of adaptation and innovation. Organizational adaptation represents organizational change brought on by environmental changes. Organizational adaptability is linked to learning ability via a mediation of the environment, which is referred to as the absorptive capacity of the organization (Boal and Hooijberg, 2000). Vera and Grossan (2004) divide the organizational learning process into exploration and exploitation learning, which secure organizational performance in changing environmental conditions. In addition, complexity theory emphasizes organizational change in terms of creativity, innovation and organizational fit (Stacey, 2010:81; Jackson, 2007:126; Marion and Uhl-Bien, 2001) that may change the environment itself (Osborn and Hunt, 2007).

Organizations viewed as CAS function as social networks (Stacey, 2010:82) where the network structure relates to organizational performance (Cummings and Gross, 2003). These networks generate “distributed intelligence”, which is a function of the networked intellectual capabilities of human agents (Marion and Uhl-Bien, 2001). Coordination and communication are central in the transmission and integration process of individual capabilities to the network intellect (Cummings and Gross, 2003; Marion and Uhl-Bien, 2001). This process is slow and costly for organizations that use a greater volume of tacit knowledge in their inputs (Grant, 2003; Teece, 2003) – mostly knowledge intensive organizations. Leadership is crucial in this coordination process by reducing internal transfer costs and increasing transfer speed. According to complexity theory, organizations as CAS are coordinated largely by bottom-up

dynamics that reduce the role of leadership control and increase empowerment in organizations (Marion and Uhl-Bien, 2001). Also, this type of coordination in a social network determines the organization's ability to change in an innovative manner. Nooteboom (2010:32) views this as the "dynamic capability" of an organization.

The management task in this situation is to create conditions that allow the leadership to be emergent at all levels of an organization. The concept of organizational leadership capability provides a framework for evaluating organizational capability, which in turn allows it to be improved to achieve better organizational performance.

## **1.2. Designing a measurement framework for evaluating organizational leadership capability**

Only a few scholars have attempted to examine leadership at the collective level. Most investigations result in qualitative models, such as that of Day *et al* (2004), Zaccaro *et al* (2001), O'Connor and Quinn (2004), or involve a qualitative examination as in the work of Denis *et al* (2001). Some investigations examine collective leadership quantitatively as in Hiller *et al* (2006) and Hofmann and Jones (2005), nevertheless, they do not examine leadership capability as embedded in the structure of organizations. The measurement tool developed by Pasternack *et al* (2001) allows us to measure leadership capability, but only at the management level. However, the absence of a suitable measurement tool for investigating leadership capability embedded in the structure of organizations across all levels of an organization is noticeable. Therefore, to formulate a measurement framework for evaluating organizational leadership capability, the Institution Leadership Quotient (LQ) model presented by Pasternack *et al* (2001) as the most suitable was combined with two concepts – Fulmer's (2000) Adaptive Organizations' Structure (AOS), and Reynolds (1987) Distributed Behavioural model – which describe organizations in terms of complexity theory as a CAS. In order to work out key factors for the measurement framework, these three main concepts and their characteristics have been combined and compared in table 4.

Considering elements of these main concepts, the prime attributes from the institutional LQ model by Pasternack *et al* (2001) encompass two dimensions in the framework for measuring organizational leadership: organizational orientation or direction to goals and organizational adaptation (table 4). These two dimensions are interrelated with organizational structure, organizational leadership capability and organizational dynamics, which together form the dynamic state of organizational leadership. Organizational structure is determined by organizational movement towards goals on the one hand; and on the other, it is determined by the adaptation process in a changeable environment described by Fulmer's (2000) AOS characteristics. Also, organizational leadership capability is revealed differently from the dimensions of the measurement framework. If

orientation to goals relates well to the traditional concepts of leadership, then adaptation connects better to concepts of collective leadership. At the same time, organizational leadership activities and processes that create the structure of organizations are both dynamic by nature.

**Table 4.** The main models and their elements according to the principal dimensions of organizational leadership

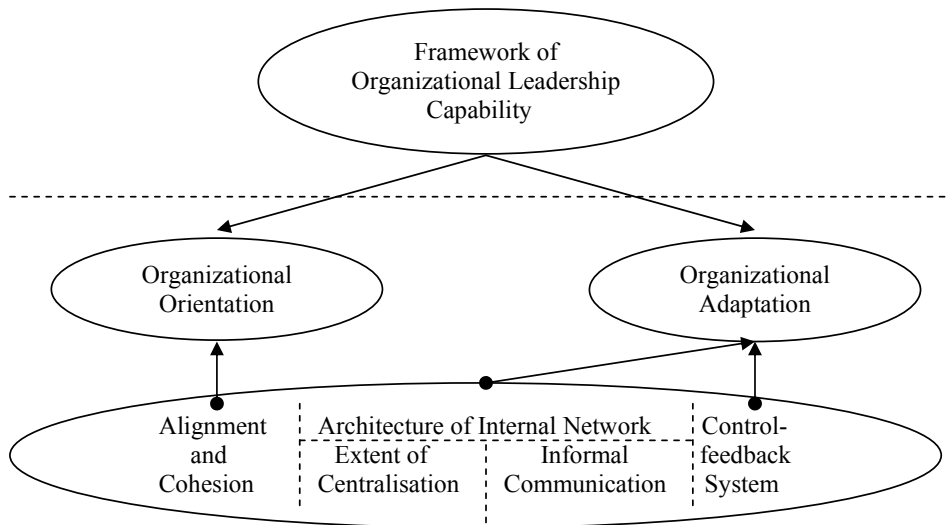
Model Dimension	Institution's Leadership Quotient model ( <i>Pasternack, et al 2001</i> )	Adaptive Organization's Structure Characteristics ( <i>Fulmer 2000</i> )	Distributed Behavioural model ( <i>Reynolds 1987</i> )
Organizational Orientation	Vision / strategy Goal-setting / planning		Alignment Cohesion
Organizational Adaptation	Group measurement Risk management Performance appraisal Incentives/compensation	High span of control	Separation
	Communication Knowledge transfer	Powerful information system	
	Capital allocation Decision-making Recruiting Professional development	Decentralisation Temporary structure Constant evolve the structure	

Source: compiled by the author

These two main dimensions of the measurement framework – organizational orientation and organizational adaptation – are marked by key factors of organizational leadership (figure 8). The first dimension of the measurement framework (organizational orientation) has been formed on the basis of the institutional LQ model by Pasternack *et al* (2001) and the Distributed Behavioural model by Reynolds (1987). Vision/strategy and goal-setting/planning from the LQ model corresponds to alignment and cohesion in the Distributed Behavioural model (table 4). Vision/strategy with alignment represents external focus and vision/strategy with cohesion represents the context of the organization. At the same time, goal-setting/planning compounds both of them (external focus and the context of the organization) into one main dynamic process, which together is the one of the key factors – *alignment and cohesion* – in the framework for measuring organizational leadership (figure 8).

The second dimension of the measurement framework (organizational adaptation) secures the stability of the adaptation of the organization by processing information – its registration, transition and interpretation in leadership pro-

cesses. All these processes take place within the social interactions between members of the organization where the number and quality of these social interactions marks the architecture of the internal network of the organization. In order to handle the huge volume of information inside this internal network, the best pattern for the structure of the organization is a separated structure. For these purposes, the element of “separation” from the Distributed Behavioural model by Reynolds (1987) has been compounded with Fulmer’s (2000) AOS characteristics and the remaining enabling systems from Pasternack’s institutional LQ model (table 4). Key factors of these internal information processes are *the architecture of the internal network* and *the control-feedback system* (figure 1). Together they are able to process the information in the proper way – while the architecture of the internal network secures the transaction of information flow throughout the organization on the one hand; on the other, the control-feedback system simultaneously provides the right interpretation of this information flow.



**Figure 8.** Factors that form the two main dimensions in the framework for measuring organizational leadership capability  
Source: compiled by the author

### *Alignment and Cohesion*

This factor represents the strategic process as one aggregated principle of organizational leadership to define organizational orientation and to create the future of an organization through the implementation of strategy. The strategic process itself is characterised by external and internal dimensions where processes across all organizational levels focus on the central goals and objectives of the organization. These central goals and objectives carry not only organizational

intentions, but also organizational members' intentions and wishes for the future. Weick (1979) claims the existence of an endogenous effect of strategic intention that creates and influences changes in the external environment of organizations. The same pro-active nature of strategic formation and implementation processes is brought out by Mintzberg *et al* (2005) in their *Entrepreneurial School* approach. Additionally, organizational goals and objectives bring organizational members together throughout the organization to act as a single entity by giving sense to their job and creating commitment (Wheatley, 1999).

#### *The architecture of the internal network*

This factor represents the ability of the organizational network to process the information flowing throughout the organization – its registration, transition and interpretation in leadership processes. Information itself, as described in the processes above, could be “action oriented” or merely background or contextual information. Each part of the organization needs all of the action-oriented information that applies to its area of concern; in addition, each section needs some of the background information to keep abreast of what is happening within the organization as a whole. Overall, information flow inside the organization is a complicated phenomenon; it follows both the formal and informal networks of the organization. This formal and informal information flow imitates the pattern of the organizational network, where the ties of networks are channels of information flow.

Information flow throughout the informal network manifests as an informal communication in the framework for measuring organizational leadership capability (figure 8). Informal networks are usually more complex and less organized than formal networks. In using informal networks, individuals share different types of information throughout the organization across functional and hierarchical levels. Also, messages pass through informal networks more rapidly, and members often regard them as more accurate and trustworthy than those of formal systems (Pool, 2006). Therefore, informal communication is one of the subparts of the architecture of the internal network (figure 8), and corresponds to the powerful information system from Fulmer's (2000) AOS characteristics and to communication and knowledge transfer from Pasternack's institutional LQ model (table 4).

The formal network is the other subpart of the architecture of the internal network, and information flow through the formal network manifests as centralisation in our framework for measuring organizational leadership capability (figure 8). Ties within the formal network express the institutional resources of the organization used among organizational members. Therefore, the subpart of the architecture of the internal network (the extent of centralisation) has been described using relative decentralisation, extensive use of temporary structures and the constant evolution of the structure from Fulmer's (2000) AOS characteristics, and the capital allocation, decision-making, recruiting, and professional development from Pasternack's institutional LQ model (table 4). All the

AOS characteristics and enabling systems from the LQ model mentioned above, describe the formal structure of the internal network of the organization and include the supervisory relationship, work groups/teams, permanent and *ad hoc* committees and management information systems.

Through the formal internal network, organizations provide organizational members with information and organizational resources – what they need in their everyday work. Access to organizational resources is directly connected to power (mostly legitimate power) in an organization, where the distribution of power is one of the most important structural attributes. In examining power in the framework for measuring organizational leadership capability, the concept of centralisation has been used. In accordance with Hall (1982), centralisation is the degree to which power is differentially distributed within an organization. The maximum degree of centralisation would exist if all the power in an organization were exercised by a single individual; the minimum degree of centralisation would exist if all the members of the organization shared in the exercise of power equally. To evaluate the distribution of power, the traditional idea of centralisation as the extent to which power is concentrated in an organization has been used. However, the centralisation and decentralisation of an organization are opposing poles; and therefore, estimating the extent of centralisation also allows us to evaluate the level of decentralisation in organizations.

#### *Control-feedback System*

This factor represents the self-regulatory processes as a part of leadership processes that create the organization's self-organizing dynamics. Self-regulating behaviour in systems are revealed through feedback processes that allow organizations to establish dynamic balance (dynamic equilibrium) (Capra, 1996). Scholars of complexity theory have distinguished between two kinds of feedback processes – negative feedback and positive feedback processes. If the negative or regulative feedback processes allow organizations (open systems) to maintain their goals in a changing environment, then the positive or amplifying feedback processes secure the detection of new things, innovations and organizational changes (Wheatley, 1999). Moreover, negative feedback distinguishes two different levels of feedback processes – the individual-operational level and the organizational-goals level. The feedback process in the individual-operational level is performed by the regulative activity of the supervisor. Here, it could be a person or some kind of document that fulfils the role of the supervisor (standard, instruction, prescription, etc.).

Organizations behave in response to available information and interpretations of that information, and understanding this process can help them modify their behaviour in the future. To this end, organizations need proper metric systems that allow them to monitor and regulate both short-term and long-term performance. The high span of control from Fulmer's (2000) AOS characteristics, which corresponds to group measurement, risk management, performance appraisal, and incentives/compensation from Pasternack's institutional LQ model (table 4), sketches out the design of an organizational



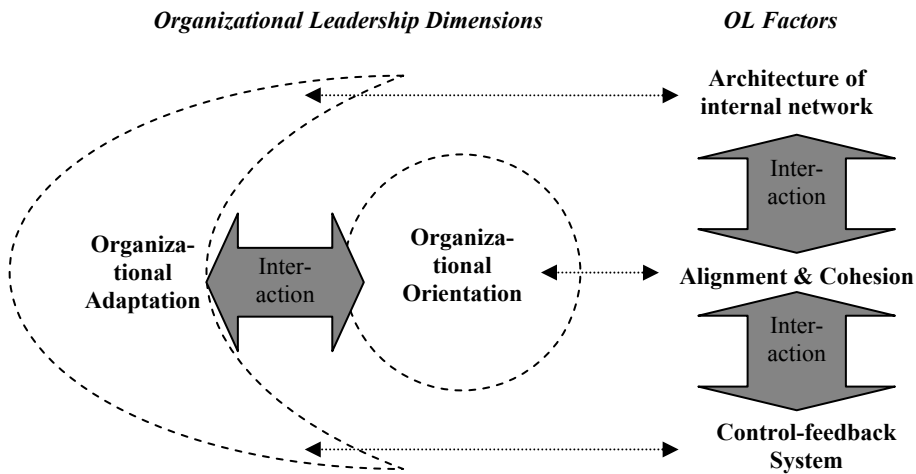
metric system. All these enabling systems form the control-feedback system in the measurement framework of organizational leadership capability (figure 8).

#### *Interaction between factors of organizational leadership*

The framework for measuring organizational leadership capability has been developed according to CAS (complexity theory), where organizations are viewed as open systems (Katz and Kahn, 1978) operating in a turbulent environment. Dooley and Van de Ven (1999) argue that organizations are complex systems with non-linear high-dimensional complex behaviour. Additionally, organizations viewed from the system theory perspective could be analysed and understood using the basic principles of their behaviour rather than their parts as the basic building blocks of organizations (Capra, 1996). Considering this, the framework translates the high-dimensional organizational behaviour to low-dimensional main principles of organizational behaviour in order to measure organizational leadership capability (figure 9, and table 4). These main principles have been identified as two main dimensions, which are referred to as the *organizational orientation* or the direction to goals and the *organizational adaptation*, also proposed by Pasternack *et al* (2001). At the same time, these main dimensions are marked by key factors – alignment and cohesion, the architecture of the internal network and the control-feedback system – that interdependently create organizational leadership capability for organizations (figure 9).

In line with Osborn and Hunt (2007), leadership was considered at the organizational level from the perspective of complexity theory, where organizations are viewed as complex adaptive systems existing in a changing environment. Organizational leadership emerges here through organizational processes where independent agents (organizational members) interact with each other. Anderson (1999), Marion (1999), Morel and Ramanujam (1999), Thietart and Forgues (1995) claim that organizational processes and agent actions are coordinated and bound together by a feedback mechanism (positive and negative feedback loops), which makes them an entire organizational system. This system governed by relationships, which dynamically interact with one another and are prone to chaotic behaviour (Thietart and Forgues, 1995). In addition, Morel and Ramanujam (1999), explain these interactions using non-linear behaviour with the presence of a feedback mechanism in the system. In the centre of these mechanisms there is a positive feedback process that embraces both negative feedback processes across all organizational levels and forms certain tools of the organizational system for interpreting the information inside the organization. Moreover, the positive feedback process with information processing across all of the key factors of the organizational leadership measurement framework (alignment and cohesion, the architecture of the internal network and the negative feedback loops of the control-feedback system), sets up the self-organization of the organization. This self-organization affords organizations the capability to adapt to the changing environment – so that organizations evolve to the edge of chaos or to the state of dynamic

equilibrium (Anderson, 1999). Under those conditions organizational leadership capability is revealed in interactions between factors of organizational leadership. Therefore, it is necessary to define interactions between factors in a way that the factor of *organizational orientation* (alignment and cohesion) will be combined separately by both factors of *organizational adaptation* (architecture of the internal network and control-feedback system) (figure 9).



**Figure 9.** Interactions between organizational leadership dimensions and factors

Source: compiled by the author

Note: OL – Organizational Leadership

Firstly, it is necessary to identify the interaction between factors of organizational leadership capability – alignment and cohesion and the architecture of the internal network. In this interaction, processes centre on aggregated organizational goals such as a vision and a mission that represent the aspirations of the whole organization. Even these goals seem to be simple, but they are actually complex and multifaceted (Simon, 1996). From the same point of view, Osborn and Hunt (2007) claim that the goals of such systems represent both a response to the environment as well as choices regarding how the organization should operate. Such a translation of system goals to the behavioural pattern of organizations takes place in the actions between organizational members in internal networks in organizations. Therefore, the configuration or architecture of the internal network has an essential role in this process. According to Carroll and Bruton (2000), the decentralised structure of social networks performs complex tasks better. Also, from the perspective of networks, Cummings and Cross (2003), in their investigation, show the positive affects of psychological closeness and communication between group members on the performance of the work group. In addition, Zaccaro *et al* (2001) bring out the importance of shared mental models influencing performance at the team level.

These shared mental models regulate collective action, encode information with respect to the individual and collective requirements for the successful interaction of collective members (Zaccaro *et al.*, 2001). Moreover, mental models organize information about systems and the response patterns required of systems with respect to environmental dynamics (Valdhuyzen and Stassen, 1977). In the centre of these models there are common and valued goals that emerge through sense-making and sense-giving processes by translating the everyday activities of individuals into the larger organizational context. These processes bring organizational members together as a whole and promote collective adaptation in a dynamic environment. Anderson (1999) calls this cognitive structure “*schemata*” that direct the behaviour of agents (organizational members) at the different levels in an organization.

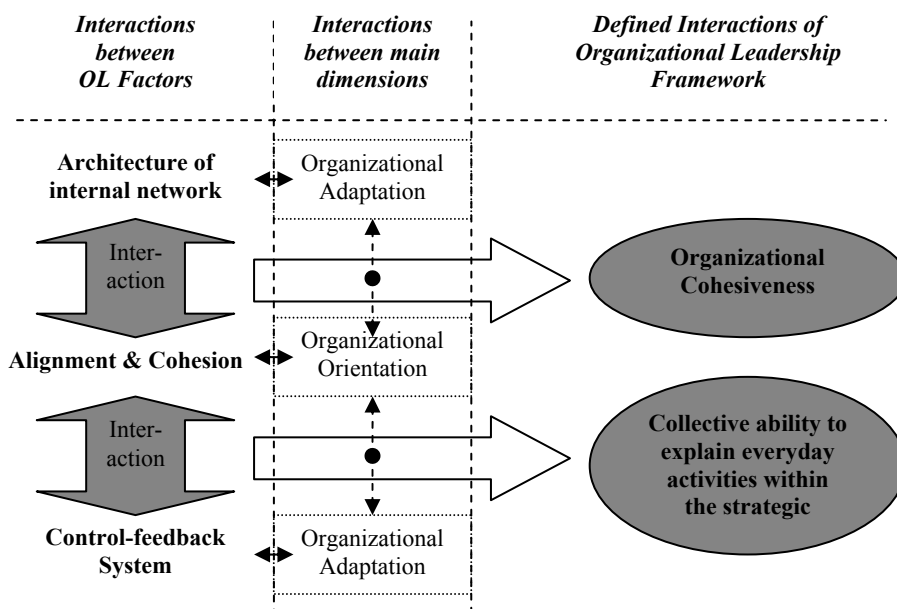
Summarizing all this, the interaction between the factors “*alignment and cohesion*” and the “*internal network of organizational members*” could be defined as *organizational cohesiveness* (figure 10). Ronson and Peterson (2006) highlight three main characteristics of cohesiveness at the group level: group member motivation towards group goals, interpersonal attraction among group members and the sense of identification with the group. This definition and description of the interaction between these two key factors marks the interaction between the two main dimensions – *organizational orientation* and *organizational adaptation* – in the organizational leadership framework as one aggregated principle of organizational leadership capability.

In light of these characteristics and the description of the interaction between these two key factors of the organizational leadership framework, it is possible to formulate the following hypothesis.

***Hypothesis 1 (H.1): Organizational cohesiveness is expected to have a positive relationship with organizational performance.***

Secondly, it is necessary to identify the interaction between the factors of organizational leadership capability – alignment and cohesion and the control-feedback system. Processes in this interaction explain (or focus on) how organizational members manage their everyday tasks. These organizational tasks are carried out via the help of control and flexibility in the social actions of the organization. Here, control and flexibility distinguishes between social actions focused on goal clarity and efficiency, and social actions focused on being adaptive to people and the external environment (Boal and Hooijberg, 2001). Klassen and McLaughlin (1996) name this functional or operations strategy, which they define as a pattern of structural and infra-structural choices that guide decisions in operations that support overall firm objectives. The same idea has support from Kaplan and Norton (1996) in their framework of the Balanced Scorecard, where strategy and strategic objectives are linked using performance measures divided into four main perspectives: customer, internal business, financial, and innovation and learning perspectives. Regulation here is based on a double loop feedback process over the entire organization. Double loop feed-

back is a complicated process consisting of two negative feedback processes: individual level and collective (group, team or organizational) level feedback processes. Feedback regulation at the collective level is performed via competition between different goals. All organizational goals from different hierarchical levels participate in this regulative competition. If higher hierarchical goals such as visions and missions are quite stable and fulfil a regulative role in these processes, then all other goals compete with each other by continuously changing priority with respect to environmental dynamics. Moreover, double loop feedback processes operate so negative feedback processes at the individual level are embraced into the negative feedback processes at the organizational level.



**Figure 10.** Defined interactions in the framework of organizational leadership capability

Source: compiled by the author

Note: OL – Organizational Leadership

Summarizing all this, the interaction between the factors “*alignment and cohesion*” and the “*control-feedback system*” could be defined as the *collective ability of organizational members to explain their everyday activities within the strategic objectives* of the organization (figure 10). This description and definition of the interaction between these two key factors marks the interaction between the two main dimensions – *organizational orientation* and *organizational adaptation* – of the organizational leadership framework as one aggregated principle of organizational leadership capability. According to this

description and definition of interaction between these two key factors of the organizational leadership framework, it is possible to formulate the following hypothesis.

***Hypothesis 2 (H.2):*** *The collective ability to explain the everyday activities of individuals within the strategic objectives of an organization is expected to have a positive relationship with organizational performance.*

The measurement of organizational leadership capability in accordance with the measurement framework of organizational leadership capability (figure 8) and the two hypotheses formulated (H.1 and H.2) follows two important system properties. First, according to the suggestion by Dooley and Van de Ven (1999), organizational high-dimensional behaviour has been reduced to low-dimensional behaviour – to suit global constraints. Second, interactions between organizational parts, which make the emergence of system wholeness behaviour possible (Stacey, 2010:81), are construed between these global constraints (figure 10). Chaotic behaviour characterises the organizational system described by those conditions. Dooley and Van de Ven (1999) describe this as behaviour that arises from a small number of interdependently acting variables with non-linear interactions, and they also state that “chaotic dynamics imply order, control and/or cooperation, and the potential clarity of the current state and future action”. Additionally, the chaotic behaviour an organization is described by the scale invariance property, which means that a similar pattern of behaviour and configuration exists at different organizational levels (Thietart and Forgues, 1995) – at the organizational, unit, group and individual levels. Therefore, interactions of global constraints could be used to measure organizational behaviour as a whole.

Interactions between the three main factors of organizational leadership capability assign two interactions between the two main dimensions – organizational orientation and organizational adaptation (figure 10). Teleological and evolutionary behaviour represented by the main dimensions (organizational orientation and adaptation) are tied together in both interactions between the main dimensions. These interactions reflect different facets of organizational behaviour determined by the pattern of the main factors of organizational leadership capability. Pattern here means how factors relate to each other and this relation between factors in pairs (figure 9 and 10) could be expressed as “=”, “>” or “<”. This pattern expresses the state of dynamic equilibrium in which organizations are settled, and only a certain pattern can move the organization into a state of chaotic equilibrium. Chaotic equilibrium is a state where small changes in behaviour frequently cause large changes in outcomes (Anderson, 1999). Therefore, it is important to investigate the pattern of organizational leadership capability factors and use this knowledge in management practice.

### 1.3. Organizational effectiveness and its relationship with organizational leadership capability in service organizations

Organizational effectiveness covers many aspects of the activities of organizations and organizations themselves. Yukl (2008) defines organizational effectiveness as the extent to which an organization is able to survive, perform its mission, and maintain favourable earnings, financial resources and asset value. Osborn and Hunt (2007) see effectiveness as organizational fitness, which is defined as the organization's ability to adapt, thrive and survive. Table 5 compares the definition of organizational effectiveness from the perspective of traditional leadership (Yukl, 2008) and complexity leadership approaches (Osborn and Hunt, 2007). Focusing on internal human resource management in organizations, Cameron (2006) claims that effective organizations satisfy the needs of their members by providing adequate inducements to sustain the required contributions – they monitor and motivate employee activities via goals, participation or teamwork rather than rules.

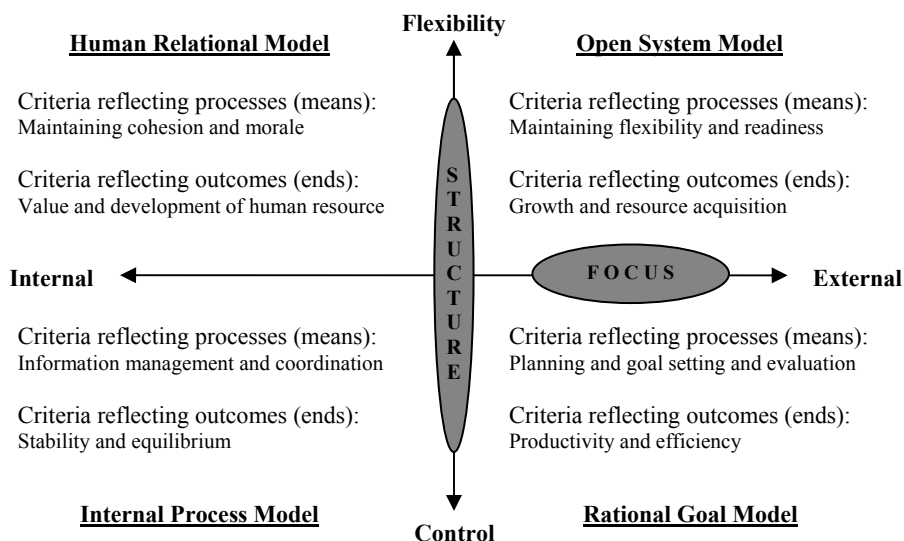
**Table 5.** A comparison of organizational effectiveness from two different perspectives

Traditional leadership approach	Complexity leadership approach
Organization's survival	<b>Organizational fitness:</b> Organization's survival Adaptability
Perform organization's mission	
Maintain favourable earnings	
Maintain financial resources and asset values	Organization's thrive

Source: compiled by the author on the basis of Yukl (2008), Osborn and Hunt (2007)

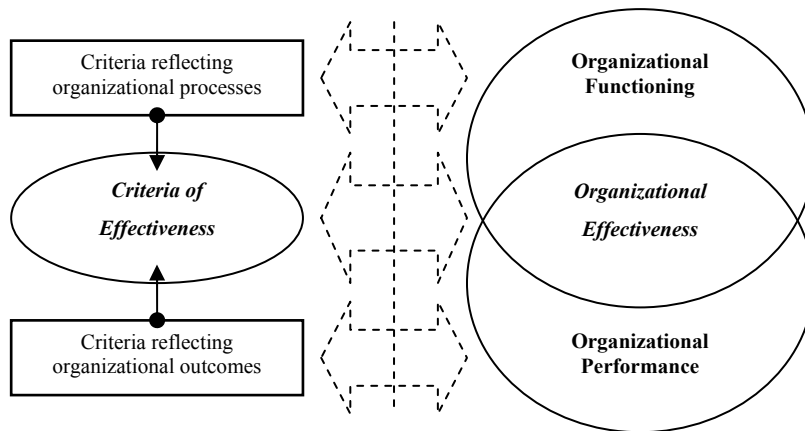
Organizational effectiveness is a multidimensional construct related to many domains of activities in organizations. Cameron (1986) claims that organizational effectiveness concerns problems associated with criteria more and theoretical problems less. In their investigations of organizational effectiveness different scholars have used different criteria to describe effectiveness. Scott (1977) highlights productivity (units produced per given time), efficiency (units produced per input units), production functions, activities required for the unit to maintain itself, morale and cohesive properties, system-elaborating and system-maintaining functions, and adaptability and resource acquisition. Stanley E. Seashore adds the decision-making process, which deals with optimizing the processes for getting, storing, retrieving, allocating, manipulating and discarding information (Quinn and Rohrbaugh, 1983:364). Also, goals, system resources, internal processes and participant satisfaction approaches have been represented in Cameron's effectiveness models (Quinn and Rohrbaugh, 1983: 364).

According to Morgan (1997), criteria of effectiveness deal with two main aspects of organizations – *organizational form* and *structure* on the one hand, and *organizational functions* and *activities* on the other. Organizational form and structure could vary from controlled to flexible, and organizational functions and activities could vary between an external and internal focus. This distinction has been used by Quinn and Rohrbaugh (1983) in their effectiveness criteria analysis. Additionally, they used two types of criteria (*criteria reflecting organizational outcomes* – “ends”, and *criteria reflecting organizational processes* – “means”) divided between four models reflecting different primary functions: the human relational model – the pattern-maintenance and tension-management function; the open system model – the adaptive function; the rational goal model – the goal-attainment function; and the internal process model – integrative function (Quinn and Rohrbaugh, 1983). Figure 11 illustrates this two-type criteria distribution between four models (or functions) of effectiveness. Boal and Hooijberg (2000) use the same framework to describe the criteria of effectiveness. According to them the internal-external dimension distinguishes between social actions focused on satisfying such internal effectiveness criteria as employee satisfaction, supervisory practices and work progress, and social actions focused on satisfying such external effectiveness criteria as market share, profitability and ROA (return on assets). The controlled-flexible dimension distinguishes between social actions focused on goal clarity and efficiency, and social actions focused on being adaptive to people and the external environment.



**Figure 11.** Framework of organizational effectiveness criteria models (a spatial model)  
 Source: Quinn and Rohrbaugh (1983)

Two types of criteria about organizational effectiveness proposed by Quinn and Rohrbaugh (1983) cover almost all organizational activities and the ends of these activities. Firstly, effectiveness criteria that reflect organizational processes describe a wide range of varieties of organizational functions. Zammuto (1984) accounts for different aspects from which effectiveness was operationally defined, such as job satisfaction, managerial task skills, managerial interpersonal skills, turnover, product quality and group cohesion. Secondly, effectiveness criteria that reflect organizational outcomes describe organizational performance evaluated by single indicators. Cameron (1986), in his study, uses indicators such as satisfaction, morale, turnover, quantity of outputs, overall firm rating and ROI (return on investment) to assess effectiveness. Also, goal-based models of organizational effectiveness emphasize financial performance criteria such as profit and return on equity (Zammuto, 1984). An extended range of performance criteria (leadership, strategic planning, customer and market focus, information and analysis, human resource focus, process focus and business results) for assessing organizational effectiveness has been used in the Malcolm Baldrige Quality Award (1999) tool-model. From the abovementioned, it appears that every single performance indicator expresses the specific domain of organizational functioning. Therefore, organizational effectiveness is revealed via organizational functioning on the one hand, and organizational performance is the basis for evaluating organizational effectiveness on the other (figure 12).



**Figure 12.** Organizational effectiveness and criteria of effectiveness  
Source: compiled by the author

The central task of leadership as well as management and governance is to achieve effectiveness and the success of organizations. Many authors (e.g. Zaccaro *et al*, 2001; Boal and Hooijberg, 2000; Day *et al*, 2004; Osborn and Hunt, 2007; Yukl, 2008) describe the influence of leadership on organizational effectiveness from different domains of leadership. Primarily leadership scholars (e.g. Cartwright and Zander, 1968; Segal, 1981; Hollander,

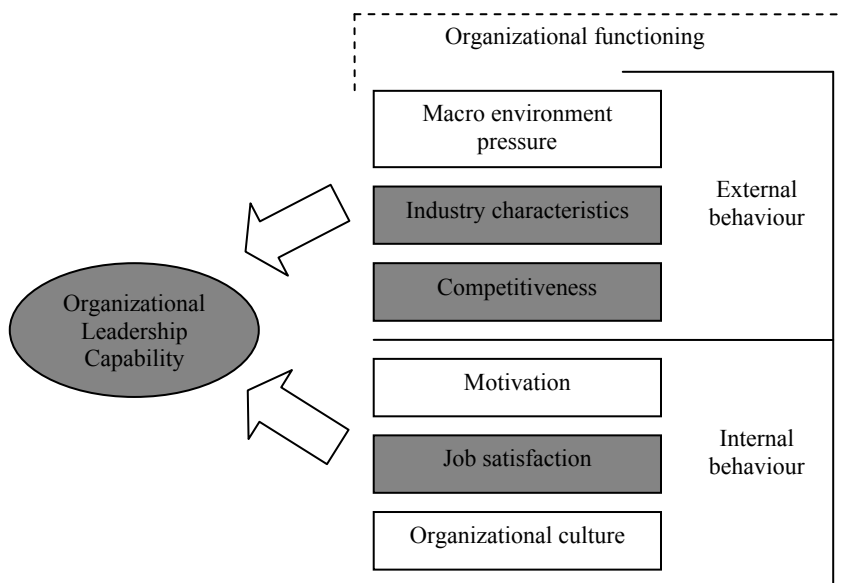


1985; Conger, 2006; Northouse, 2007) highlight that leadership includes attention to goals. This means that leadership has to do with directing and coordinating the activities of a group of individuals toward some task or end – organizational outcomes. These outcomes are achieved through processes of leadership where the leadership emerges from the interplay between leaders and followers – transformational leadership centres on this principle (Northouse, 2007). The same process principle has been mentioned by Zaccaro *et al* (2001), Day *et al* (2004) and Hiller *et al* (2006) at the collective level of leadership. In these circumstances, the leadership's influence on organizational effectiveness satisfies both types of organizational effectiveness criteria: criteria reflecting organizational processes, and criteria reflecting organizational outcomes. From this point of view organizational effectiveness is a dependent variable and leadership is an independent variable. This is supported by Boal and Hooijerg (2000), and Cameron (1986, 2006) also claims that effectiveness is generally the ultimate dependent variable in research on organizations. Therefore, in this dissertation organizational leadership is an independent variable that influences different domains of organizational effectiveness – both organizational functioning and organizational performance.

#### *Organizational functioning*

Organizational effectiveness in terms of functioning is revealed in organizational behaviour internally and externally, which together secure the success and survival of an organization. The framework of the organizational effectiveness criteria model, elaborated by Quinn and Rohrbaugh (1983), is based on four different models (figure 11) that focus on the internal and external behaviour of organizations. Both organizational forms of behaviour (internal and external) cover the structural dimension that leans towards control or flexibility, and which highlights four different organizational functions. External organizational behaviour that leans towards flexibility focuses on the adaptive functions, and that which leans towards control focuses on the goal-attainment functions of organizations. Internal organizational behaviour that leans towards flexibility focuses on the pattern-maintenance and tension-management functions, and that which leans towards control focuses on the integrative function of organizations (Quinn and Rohrbaugh, 1983). In real life, organizational functioning covers all these functions simultaneously where one or some of them dominate in a certain state according to the organizational life cycle (Cameron, 1986), and internal behaviour towards the *harmony* and external behaviour towards the *competitiveness* of an organization (Quinn and Rohrbaugh, 1983).

Organizational leadership capability influences organizational functioning in terms of both internal and external organizational behaviour, where internal behaviour implies the motivation of organizational members, job satisfaction of employees and organizational culture, and external behaviour implies the competitiveness in the industry, characteristics of the industry and macro environmental pressure. The framework for setting the propositions illuminates this (figure 13).



**Figure 13.** Framework for setting propositions about job satisfaction, organizational competitiveness and industry characteristics

Source: compiled by the author

*Note: Aspects of behaviour with a grey background are the focus of the empirical study*

In the external environment, organizational functioning refers to a set of activities that includes both action and responses to environmental dynamics. In the macroeconomic environment, these activities imply resource allocation and movement between different industries. This movement referred to as changes in economic structure have taken place in the Estonian economy as well. The percentage of the service sector has risen from 61.2% of GDP in 1995 to 71.0% in 2009, when GDP growth was 49.4% during the same period (from 1995 up to 2009) (Statistics Estonia, 2010). This is similar to advanced economies, where services account for roughly two-thirds of GDP (Tether and Metcalfe, 2004: 289), and in small open economies such as the Hong Kong economy, where it is even larger – 87.5 % of GDP in 2002 (Rooney, McKenna and Liesch, 2010:65). The changes in the structure of the service sector itself are also important. However, the fact that the Estonian service sector percentage has increased by a total of almost 10% indicates that a different speed of increase exists in different service industries. Increases in terms of advantage occurred in two main groups of service industries – finance, real estate and business services, and community, education, social and personal services – while an increase in disadvantage occurred in wholesale, retail, restaurants, hotel and logistic services (table 6). This shows that in higher value added industries characterised by more complicated services, an advantage increase has existed. According to Rooney *et al* (2010:67), community services, and finance and business services are part of the core of the economy.

**Table 6.** Changes in the structure of the Estonian service sector<sup>2</sup> from 1995 to 2009 (share of value added in the service industry, %)

Industry	1995	2009
Wholesale, retail, restaurants and hotels	22.4%	21.0%
Logistics	18.3%	14.5%
Finance, real estate and business services	30.6%	34.9%
Community, education, social and personal services	28.8%	29.7%

Source: compiled by the author on the basis of Statistics Estonia (2010)

Industries differ from each other not only in terms of the large differences that exist between the manufacturing and service sectors (table 7), but also differences within the service sector itself. Service industries represent a very broad set of industries. According to the World Trade Organization categories, the service sector is divided into twelve separate industries: financial, transportation, construction, business, trade, hotel and restaurant, communication, insurance, education, health-related, personal, and recreational and cultural services (Segal-Horn, 2006:148).

**Table 7.** Comparison of manufacturing and service industries

Manufacturing	Service	Implications
Tangible	Intangible	Services are difficult to describe, exhibit, or communicate.
Easy to standardize	Heterogeneous; difficult to standardize	Guaranteeing a standard experience to the customer is problematic. Final implementation of the strategy is dependent on employees. Quality of service delivery is always partly personality-dependent
Production and consumption occurs separately	Simultaneous production and consumption	Customers cannot “test drive” a service. Services are higher risk purchases for customers. Both customers and employees participate in and affect the service outcome. Some parts of a service always need to be decentralised close to the customer.
Durable	Perishable	Service cannot be kept in stock, returned or re-sold. Capacity utilization is problematic but critical

Source: Segal-Horn (2003)

<sup>2</sup> The sector includes different industries in accordance with their main characteristics.

Considering the character of jobs, Segal-Horn (2006) divides service industries into two groups: low-skill services such as wholesale and retail trades, restaurants, tourism, and personal services; and high-skill services such as media, software, financial, professional, and business services. The same distinction has been used by Reich (1993); he divided service jobs into *personal services* and *symbol-analytical services*.

It is important to note that outputs of low-skill and high-skill services depend on different skills and knowledge quality and the level of their integration to the capabilities of the organization. Economies of scale and scope characterise their configuration and use in the organization's activities to achieve economic success in a certain field of service. In different fields of service, economies of scale and scope vary differently in terms of their combination (figure 14). If retail services benefit from economies of scale, then professional services (e.g. accountancy, legal, management consulting, surveying, civil engineering, recruiting, computer, etc.) benefit from economies of scope. But different again, news/information and financial services benefit from both economies of scale and scope, and on the contrary personal services (e.g. car repair, hairdressing, plumbing, etc.) do not benefit from either of them (Segal-Horn, 2003).

		Low	High	<i>Scope economies</i>
<i>Scale economies</i>	High	Retailers; Fast food; etc.	News/information agencies; Financial services; etc.	
	Low	Car repair; Hairdressing; etc.	Professional service firm; etc.	

**Figure 14.** Economies of scale and scope in different types of services  
Source: compiled by the author on the basis of Segal-Horn (2003)

Organizations in service industries strongly depend on specific knowledge, skills and capabilities. Their capabilities arise from knowledge, learning and organizational or managerial skills from which economies of scope emerge (McGee, 2006b). In service industries economies of scope arise from integrating different knowledge and skills, and this is most important for the success of

high-skill services. From this point of view, organizational leadership capability, as an important part of the coordination process of all organizational capabilities, is more important for high-skill services. This allows us to make the following proposition:

**Proposition 1a (P.1a):** *High-skill services have greater organizational leadership capability than low-skill services.*

In the industrial environment, organizational activities imply competitive rivalry between organizations. Competitive dynamics researchers have described the industrial environment and analysed its structure using different factors. Smith, Ferrier and Ndofor (2008) account for a large variety of them: information on industry structure and competitive action, market commonality, resource similarity, strategic similarity, environmental instability, market growth, rate of new entry, industry concentration, number of firms in industry, level of product differentiation, barriers to entry/exit and market uncertainty. In addition to competitive rivalry, complexity of industry and regulatory changes were mentioned by Short, Kitchen, Palmer and Hult (2007), and velocity of industry was described by Nadkarni and Barr (2008). Table 8 summarizes the most important factors of the industrial environment, which influence the competitive behaviour of organizations. However, Porter's (1980) well known five-force model has mostly been used to analyse industrial structure and determine the "attractiveness" of the industry. At the centre of this model competitive rivalry exists among industry competitors, which is linked to entry to industry, supplier power, buyer power and power of substitutes (Porter, 1980).

**Table 8.** A comparison of the most important factors of the industrial environment proposed by different authors

Caves (1972)	Powell (1996)	Robinson and McDougall (1998)
<ul style="list-style-type: none"> <li>– seller concentration;</li> <li>– product differentiation;</li> <li>– entry barriers;</li> <li>– growth rate of market demand.</li> </ul>	<ul style="list-style-type: none"> <li>– competitive power;</li> <li>– entry barriers;</li> <li>– industry maturity.</li> </ul>	<ul style="list-style-type: none"> <li>– industry concentration;</li> <li>– product differentiation;</li> <li>– stage of the life cycle / industry growth rate.</li> </ul>

Source: compiled by the author

As opposed to industrial organization economics that consider industry as the main unit of analysis (Hawawini, Subramanian and Verdin, 2003), strategic management focuses on the organization itself to explain profitability diffe-

rentials within industry by using firm-specific factors (Powell, 1996)<sup>3</sup>. If organizations within an industry faced identical conditions of supply and demand and operated under the same market structure, then differences in their performances would depend on firm-specific factors that create competitive rivalry within industry. There are three types of firm-specific factors that create competitive rivalry among members of an industry: organization size (Hawawini *et al*, 2003; Powell, 1996), the dynamic collection of specific capabilities (Hawawini *et al*, 2003) and strategy (Hawawini *et al*, 2003; Kotha and Nair, 1995).

With an emphasis on realized strategy, Kotha and Nair (1995:499) describe Hambrick's four strategic dimensions: (1) cost efficiency, (2) asset parsimony, (3) differentiation and (4) scale/scope. Cost efficiency measures the degree to which costs incurred per unit of output are low. Asset parsimony measures the degree to which assets deployed per unit of output are few. Differentiation measures the degree to which the product and its enhancements are perceived as unique, and scale/scope measures the relative size and range of activities a business engages in within its industry (Kotha and Nair, 1995).

It is also important to distinguish between different industries, such as manufacturing and service industries. Segal-Horn (2006, 2003) lists four distinct characteristics that define the most important differences between products and services, which are: intangibility, heterogeneity, simultaneous production and consumption, and perishability. According to Powell (1996), the service industry relies more heavily on human capital, and performance stems from firm-specific know-how, capabilities, processes and relationships, rather than from structurally based advantages that accrue to physical assets. Knowledge is often a special asset in services. "Know-how" there literally consists of the knowledge of how to combine human and physical resources to produce and process information (Segal-Horn, 2006). Also, Canals (2000) claims that knowledge and information are the mainstays of business growth, and the importance of intangible resources is increasing in the service society. Considering this, Carmeli and Tishler (2004) draw attention to six intangible elements, which have strategic importance for the viability of organizations: management capability, human capital, perceived organizational reputation, internal auditing, labour relations and organizational culture. Economies of scope here is one important issue in the service industry because the output of service organizations is often multiproduct. Two important circumstances of economies of scope in the integration of activities across a multiproduct organization have been specified by Teece (1980): two or more products depend on the same proprietary know-how; and a specialised invisible asset is a common input into two or more products.

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<sup>3</sup> Pearce and Robinson (2009) divided this to industrial environment (corresponds industrial organization analyze) and operating or competitive or task environment (corresponds strategic management analyze).

Organizational capabilities, which are created using specific knowledge and its integration across different levels of an organization (Grant, 1996), are reflected in the competitive behaviour of organizations in their competitive environment (Hawawini *et al*, 2003). Stress on dynamic capabilities that explain the sources of organization-level competitive advantage over time, Teece (2009) points out five fundamental management/organizational skills, which are: learning and innovation processes, business “design” competence (what business model to employ), investment allocation decision heuristics, asset orchestration, bargaining, and transactional competence, and efficient governance and incentive alignment. At the core there are management and leadership knowledge and skills across all levels of an organization. Therefore, organizational leadership capability where management and leadership knowledge and skills were embedded into organizational processes and systems reflect organizational functioning in terms of competitiveness in the service industry. From this point of view, the pattern and value level of organizational leadership capability factors are associated with the competitive position of an organization in its competitive environment, and this makes the following proposition possible:

**Proposition 1b (P.1b):** *Organizations with higher competitive behaviour have greater organizational leadership capability than organizations with lower competitive behaviour.*

Organizational leadership capability describes organizational functioning in the internal environment, which implies employee motivation, organizational culture and employee job satisfaction.

Firstly, motivation here refers to a dynamic, internal state resulting from the independent and joint influences of personal and situational factors (Kanfer, 2006). At the same time, it is important to mention that motivation has a primary effect on the behaviour of individuals and the results of those behaviours. But the main question from the leadership point of view is how leaders (or the leadership) build up motivation in organizations. The path-goal theory of leadership provides these types of solutions. Path-goal theory is about how leaders motivate subordinates to accomplish designated goals (Northouse, 2007). The basic principles of path-goal theory are taken from expectancy theory, which suggests that employees will be motivated, if they feel competent, if they think their efforts will be rewarded and if they find the payoff for their work is valuable (Sydänmaanlakka, 2003). However, the fact that motivation according to path-goal theory is treated as a dependent variable only expresses the personal domain in the behaviour of an organization, which is not sufficient for a complete assessment of the organization.

Secondly, culture according to Alvesson (2005) refers to a complex, inaccessible, fuzzy, holistic phenomenon, which is central in governing the understanding of behaviour, social events, institutions and processes in organizations. Manifestations of cultures in organizations include formal and informal practices, the organizational stories employees tell to explain, “how things are done

around here”, rituals, humour, jargon, physical arrangement and values (Martin, 2006). According to Schein (1985), the set of values and behavioural norms at the core of a culture guides organizational members in choices and actions. From these points of view, culture describes how organizations function. Also, culture is treated as an object of managerial action, where managers have an impact on culture either explicitly or implicitly. Many scholars have claimed that leadership influences organizational culture (e.g. Kavanagh and Ashkanasy, 2006; Balthazard, Cooke and Potter, 2006; Holbeche, 2005; Wilson and Firestone, 1987; Schein, 1985). Culture in this case is treated as a dependent variable. In contrast, the influence of culture on leadership was described by Northouse (2007) (national culture), and by Alvesson (2005) who use the concept of a metaphor for organizational culture. However, Alvesson (2005) admits that managers always, in some way or another, “manage” culture.

Thirdly, job satisfaction as employee emotional well being and their behaviour is implied in the functioning of an organization. Job satisfaction was mainly defined as an emotional state resulting from the appraisal of one’s job (Arvey, 2006; Locke, 1976). A variety of theories help to explain how job satisfaction comes about. Some of them suggest that job satisfaction is a function of what is actually present in the job (e.g. Arvey, 2006; Ugboro and Oben, 2000; O’Reilly, Chatman and Caldwell, 1991; Wanous and Lawler, 1972). Others suggest that job satisfaction is a function of the degree to which individuals’ needs are fulfilled, or argues that satisfaction is a function of the degree to which a job fulfils important work values (e.g. Arvey, 2006; Wharton, Rotole and Bird, 2000; Kalleberg, 1977; Locke, 1969).

Different scholars have drawn out various aspects and factors that reflect and influence job satisfaction. Wanous and Lawler (1972) draw distinctions between overall job satisfaction and satisfaction with a particular *facet* of one’s job – job facet satisfaction. From this point of view they have defined overall job satisfaction as the sum of job facet satisfaction across all facets of a job. At the same time, Wanous and Lawler (1972) highlight six facets of job satisfaction that cover overall job satisfaction: (1) self-esteem, (2) opportunity for growth, (3) feeling of security, (4) social-relationship, (5) autonomy, and (6) pay. Other scholars offer more detail by dividing facets between individuals’ experiences of the job (intrinsic facets) and satisfaction with the working environment (extrinsic facets) (e.g. Arvey, 2006; Snipes, Oswald, LaTour and Armenakis, 2005; Dormann and Zapf, 2001; Arvey, Bouchard, Segal and Abraham, 1989; Kalleberg, 1977; Weiss, Dawis, England and Lofquist, 1967). From the abovementioned, job satisfaction covers both individual and organizational aspects of organizational functioning instead of motivation, which covers individual aspects, and organizational culture, which mostly covers organizational aspects.

Table 9 summarizes and compares the facets of job satisfaction proposed and described by different authors. This makes it possible to formulate facets that describe job satisfaction and use them to assess overall job satisfaction.



**Table 9.** A comparison of the main facets of job satisfaction proposed by different authors

Wanous and Lawler (1972)	Weiss <i>et al</i> (1967)	Kalleberg (1977)	Snipes <i>et al</i> (2005)	Arvey (2006)
(not divided into intrinsic and extrinsic facets)	<b>Intrinsic:</b> – type of work; – achievement; – ability utilization.	<b>Intrinsic:</b> (separate facets not listed)	<b>Intrinsic:</b> – nature of work; – satisfaction with customers.	<b>Intrinsic:</b> – achievement; – recognition; – features associated with the work itself.
Self-esteem Growth Security Social Autonomy Pay	<b>Extrinsic:</b> – working conditions; – supervision; – co-workers; – company.	<b>Extrinsic:</b> – convenience; – financial; – co-workers; – career; – resource adequacy	<b>Extrinsic:</b> – supervision; – pay; – benefits; – contingent rewards	<b>Extrinsic:</b> – working conditions; – supervision; – components of the environment context

Source: compiled by the author

Intrinsic aspects of the job are directly related to tasks (Dormann and Zapf, 2001) and individuals' experiences of the job (Arvey *et al*, 1989). The job tasks allow employees to develop and use their abilities, providing them with the chance to be self-directing and to see the results of their own work. The experience and valuation of such tasks reflects the desire among employees to be stimulated and challenged. This brings out important intrinsic facets of the job and its fit to the person.

From these, one of the most important job facets is the *work itself*, mentioned by Weiss *et al* (1967), Snipes *et al* (2005), Arvey (2006) (table 9), and generally described by Kalleberg (1977). Ganzach (1998) analysed this in terms of job complexity and the intelligence of the employee as it corresponds to the job satisfaction of the employee. He found that relationship between the person's intelligence and job complexity influences job satisfaction. The intelligence of the person is positively related to the desired job complexity (more intelligent people desire more complex work) and this fit positively influences the job satisfaction of the employee (Ganzach, 1998).

Another important job facet is *achievement* of results (goals), and the ability to utilize skills to this end (Arvey, 2006; Kalleberg, 1977; Weiss *et al*, 1967). In these terms, the work efforts and self-efficacy of employees are important variables that influence employee job satisfaction (Karatepe, Uludag, Menevis, Hadzimehmedagic and Baddar, 2006). In their investigation among of frontline salespersons, they found a positive correlation to job satisfaction with both work effort and self-efficacy.

A third important job facet is *recognition* mentioned by Arvey (2006), Busch, Fallan and Pettersen (1998). Weiss *et al* (1967:2) also use it, but in a limited mode "The praise I get for doing a good job", which points to some

symbols or ceremonies used by management of the organizational hierarchy. In reality, recognition involves a broad group of stakeholders, not only managers, but also colleagues (Busch *et al*, 1998), customers (Snipes *et al*, 2005), competitors and the public with their attitudes.

Extrinsic aspects of the job are directly related to the work environment (Arvey *et al*, 1989), which involves the physical and social organizational environment combined with the management processes and systems, which all together affect employees in their every day activities.

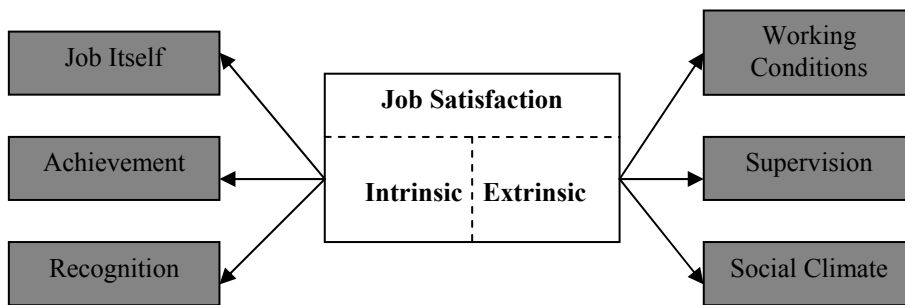
From here, the first important job facet is *working conditions*, mentioned by Weiss *et al* (1967), Arvey *et al* (1989) and Arvey (2006). Kalleberg (1977) described this as a convenience dimension, which refers to characteristics that provides solid creature comforts (i.e. a “soft” job). According to his description this includes: convenient travel to and from work, good hours, freedom from conflicting demands, pleasant physical surroundings, no excessive work volumes, enough time to do the work and an opportunity to forget about personal problems. Also, it includes such items as pay and other benefits.

Another important job facet is *supervision* (Weiss *et al*, 1967; Snipes *et al*, 2005; Avrey, 2006), which expresses both management processes and leadership activities. Harris, Wheeler and Kacmar (2009) and Golden and Veiga (2008) highlight the quality of relationships between supervisors and subordinates and the influence of this on job satisfaction among employees. When Harris *et al* (2009) investigated the influence of Leader Member Exchange (LMX) quality on the level of job satisfaction in accordance with the empowerment of employees in two groups (highly and poorly empowered), then Golden and Veiga (2008) investigated the influence of LMX quality on the level of job satisfaction according to the virtual mode of the work (away from the office) in two groups (limited and extensive virtual mode). LMX quality positively influences employee job satisfaction in both investigations. Also, it is important to note in these two investigations that the group with high empowerment has employees with higher job satisfaction compared to the group with low empowerment, and the group with a limited virtual mode has employees with higher job satisfaction compared to the group with an extensive virtual mode. Moreover, LMX quality has a stronger influence on the level of job satisfaction in groups with low empowerment and an extensive virtual mode (Harris *et al*, 2009; Golden and Veiga, 2008). Evaluating employee performance is also a significant part of management, and it also influences job satisfaction. Lau and Sholihin (2005) found a positive relationship between fairness in performance evaluation procedures along with trust in supervisor and job satisfaction.

A third important job facet is *social* (or *organizational*) *climate*, mentioned by Weiss *et al* (1967) and Kalleberg (1977) as relationships with co-workers. This reflects a worker’s desire to satisfy social needs from work activities. With respect to satisfaction, Wharton *et al* (2000:70) turn their attention to two primary reasons for social relations in the workplace. The first set of influences calls attention to the ways that people rely on co-workers as important sources

of information and social comparison, the second set emphasizes the direct effects of social relations on satisfaction. From the organizational culture perspective, O'Reilly *et al* (1991) claim that people desire environments that fit their characteristics. In their investigation they found a positive significant correlation between person-organization fit and normative commitment, and job satisfaction with both of them. The ethical climate in an organization is also important. Schwepker Jr. (2001) has found that the organizational ethical climate has a strong effect on the job satisfaction of employees.

Finally, figure 15 summarizes the three main intrinsic facets (*job itself*, *achievement* and *recognition*) and the three main extrinsic facets (*working conditions*, *supervision*, and *social climate*) of job satisfaction, which were formulated for the current research.



**Figure 15.** The division of job satisfaction into its main intrinsic and extrinsic facets  
Source: compiled by the author

The literature suggests that the relationship between leadership and job satisfaction basically exists in terms of LMX theory (Harris *et al*, 2009; Golden and Veiga, 2008), but also in terms of top management leadership within the framework of total quality management (TQM) (Ugboro and Obeng, 2000). Organizational leadership as an organizational capability that is embedded in organizational processes and systems reflects organizational functioning in terms of job satisfaction. Its factors, patterns and value level are associated with job satisfaction, which facilitates propositions about intrinsic and extrinsic job satisfaction as follows:

**Proposition 2a (P.2a):** *Groups of employees in an organization with higher intrinsic job satisfaction have higher organizational leadership capability than groups of employees with lower intrinsic job satisfaction.*

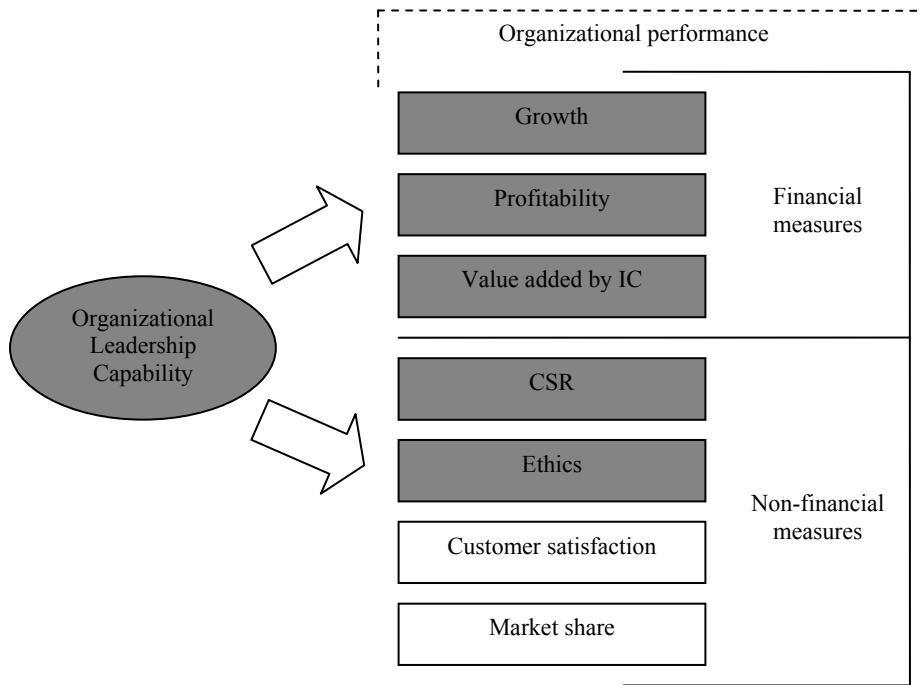
**Proposition 2b (P.2b):** *Groups of employees in an organization with higher extrinsic job satisfaction have higher organizational leadership capability than groups of employees with lower extrinsic job satisfaction.*

### *Organizational performance*

Leadership investigators have studied individual (e.g. Lieberman and O'Connor, 1972) and group/team (e.g. Zaccaro *et al*, 2001) leadership that influences performance. In spite of the fact that leadership at the organizational level has been described by several scholars (e.g. Osborn and Hunt, 2007; O'Connor and Quinn, 2004; Marion and Uhl-Bien, 2001), the influence of leadership on organizational performance has not been investigated at the organizational level. Therefore, it is important to investigate the relationship between the capability of organizational leadership and organizational performance.

In order to estimate organizational performance, two different types of measures could be used: financial and non-financial performance indicators. In this dissertation the influence of organizational leadership capability on organizational performance was investigated using financial as well as non-financial indicators (figure 16). The former – financial performance indicators – have been widely used for estimating organizational performance. These traditional, financial performance accounting measures have been criticised for giving misleading signals with regard to continuous improvement and innovation (Loveridge, 2006). Also, these indicators have worked well in the past, while organizations need indicators that support processes that create future adaptations in response to the external environment in uncertain circumstances. Non-financial indicators, such as market share, customer satisfaction and corporate social performance (CSP) measures open up the business activities of organizations in a broader way. For example, the concept of social responsibility rests on two fundamental premises. The first is that business exists at the pleasure of society, and the second is that business acts as a moral agent within society (Wartick and Cochran, 1985).

Performance is measured in terms of organizational profitability and growth (Kotha and Nair, 1995). Growth in sales is one of most used financial performance indicators (Wong and Saunders, 1993) at both industry and organizational levels of analysis (Capon, Farley and Hoenig, 1990). If the sales volume itself marks the size of the organization, which is not related to financial performance (Capon *et al*, 1990), then sales growth in accordance with Greenly (1995) is related to comprehensive market orientation. Robinson and McDougall (1998) turn attention to sales growth as the most important and also the most appropriate goal of business organizations. Moreover, Kotha and Nair (1995) found a positive relationship between sales growth and technological change in the machine tool industry.



**Figure 16.** Framework for setting proposition about financial and corporate social performance represented by CSR and ethics

Source: compiled by the author

*Notes: IC – intellectual capital; CSR – corporate social responsibility; Performance measures with a grey background are the focus of the empirical study*

The other important indicator beside sales growth is net profit (Wong and Saunders, 1993). The broad use of organizational profit performance in estimating organizational performance and its maximization as an output of the manager's rational decision-making processes is well known from economics. It involves three important aspects. Firstly, it is necessary to mention that the profitability of organizations in accordance with industrial/organizational economics and Porter's related view is determined by the characteristics (structure) of their industry (Short *et al*, 2007:154) – different industries are characterised by different competitive conditions. Secondly, Capon *et al* (1990) highlight profit as a financial performance indicator at organizational level analysis. From this, the perspective of productivity-efficiency and the goal-based model of organizational effectiveness emphasizes profit as an important financial performance criteria (Zammuto, 1984; Quinn and Rohrbaugh, 1983). Here it is important that more than a static amount of the profitability exists; a dynamic change in profitability indicates the internal productive-efficiency of organizations. Thirdly, from the perspective of external-market orientation,

Kotler (1988) claims profitability as one of the three “pillars” according to the definition of market orientation. This is supported by Cronin and Page (1988) who demonstrated the market orientation and sales growth effect on profit performance in their investigation. Also, Narver and Slater (1990), and Kohli and Jaworski (1990) found that profits are perceived as a component of market orientation.

Financial performance outcomes such as sales growth and profitability denote different aspects of organizational activities – functioning. If sales growth expresses external market-oriented activities, then profitability with its changes expresses internal – productive-efficiency activities. Therefore, leadership which influences performance at the individual and group/team level (Zaccaro *et al*, 2001; Lieberman and O’Connor, 1972) also influences organizational performance at the organizational level in both directions via external and internal activities. From this point of view organizational leadership capability should have a relationship with organizational performance measured using financial performance indicators that express the external and internal efficiency of the organization. All this allows us to make the following proposition:

**Proposition 3a (P.3a):** *Organizational leadership capability has a relationship with internal organizational efficiency (or profit) and external sales growth.*

The business performance of organizations in terms of profitability is often measured using profit ratios such as return on sales (ROS), return on equity (ROE), return on assets (ROA) (Robinson and McDougall, 1998), and return on investment (ROI) (Kotha and Nair, 1995; Wathen, 1995). These indicators are multifaceted and open up different aspects of efficiency in the value creation activities of organizations. The most important indicator here is ROS (equation 1), which combines two important aspects of the activities of organizations – external (market orientated) activities and internal (productivity-efficiency) activities. From the productivity-efficiency point of view, Kotha and Nair (1995) in their study found that the cost efficiency strategy of manufacturing organizations is positively related to ROS. In addition, investigating the same types of organizations, Wathen (1995) found that a focus on production processes as part of a manufacturing strategy is positively but not strongly related to ROS. From this he discussed overall business strategy, which is broader than manufacturing strategy and includes both marketing- and technology-driven orientations and other organizational processes as well. Bontis, Crossan and Hulland (2002) studied the relationship of organizational processes to business performance where organizational learning was a dynamic process of strategy renewal occurring across individual, group and organizational levels of the organization. In their investigation they used a business performance indicator similar to ROS – return on revenue (ROR) – and found a positive relationship between ROR and all levels of organizational learning.

$$\text{Return on sales} = \text{net income} / \text{sales} \quad (1)$$

Three other performance indicators (ROE, ROA, and ROI) estimate the efficiency of the use of real and financial capital from different perspectives. In spite of the large use of ROE (equation 2) (Robinson and McDougall, 1998; Zammuto, 1984), this indicator holds one important disadvantage – it is designed to evaluate shareholders' investment efficiency. The value of ROE primarily depends on shareholder decisions and legislation concerning entrepreneurship, and not so much on the decisions of the management. ROA (equation 3) and ROI (equation 4) are free of this disadvantage, and also, they are quite similar in considering all assets not only shareholder equity as in ROE. In addition, they are both related to market orientation – ROA's relationship to market orientation has been proven by Narver and Slater (1990) and ROI's by Greenley (1995). However, ROA and ROI are different. Where ROI is more concerned with invested assets (total assets less current liabilities) and is sensitive to the intensity of investments, then ROA is concerned with total assets over the longer term and throughout the company not only in single units. From this point of view ROA has an advantage compared to ROI when measuring the efficiency of management investment decisions.

$$\text{Return on equity} = \text{net income} / \text{average stockholders equity} \quad (2)$$

$$\text{Return on assets} = \text{net income} / \text{average total assets} \quad (3)$$

$$\text{Return on investments} = \text{income} / \text{average invested capital} \quad (4)$$

Also, some differences in the calculation of financial ratios, which appear from the context of the particular taxation policies in the country (Estonia in this dissertation), should be addressed. Usually, financial ratios such as ROS, ROA and ROE use net income – profit after taxes – for their calculation. In the context of Estonia it is reasonable to use profit before tax instead of net income. In Estonia, the objects of taxation by income tax are the shareholders of the company not the companies themselves (Tulumaksuseadus: §50). Therefore, the share earnings, which are under taxation and depend on the decision of the shareholders in a certain company, make companies performance measured by ROS and ROA incomparable.

Accordingly, leadership influences organizational performance (e.g., Yukl, 2008) and this performance could be measured using the organizations' profit ratios (Lieberson and O'Connor, 1972). Therefore, leadership at the organizational level as a capability of organizational leadership also has a relationship with organizational performance, which could be measured using profit ratios. This allows us to make the following proposition:

**Proposition 3b (P.3b):** *Organizational leadership capability has a relationship with organizational profitability measured using profit ratios such as return on sales (ROS) and return on assets (ROA).*

Traditional financial measures of business performance have long been criticised for their inadequacy in guiding strategic decisions (Bontis, Dragonetti, Jacobsen and Roos, 1999). This is due to the fact that competitive advantage in organizations in a modern economy depends more on the exercise of specialist knowledge and competencies or the management of organizational competences than the bureaucratic control of physical resources (Blackler, 1995). The concept of intellectual capital, with its two streams (the strategic and measurement streams), is trying to resolve this. The strategic stream of intellectual capital deals with the creation and use of knowledge, as well as the relationship between knowledge and success or value creation on the one hand, while on the other, the measurement stream focuses on the need to develop a new information system, measuring non-financial data alongside the traditional financial data (Roos *et al.*, 1998). According to this, intellectual capital comprises relationships with customers and partners, innovation efforts, organizational infrastructure and the knowledge and skills of organizational members is a primary source in the creation of organizational performance, measured as value added using intellectual capital.

Market-based performance measures such as Tobin's  $Q$  (Short *et al.*, 2007) and market value added (MVA) (Robinson and McDougal, 1998) have mostly used indicators to measure the performance created by the intellectual capital of organizations. They both estimate the value added (VA) created by the capital of the organization that accounting standards have not taken onto the balance sheet of organizations. This means that MVA and Tobin's  $Q$  measure the difference between market and book value, which could be understood as organizational performance – the “extra value” created by the intellectual capital of an organization. Also, the distinction between MVA and Tobin's  $Q$  is not great – while MVA estimates the difference between the market and the invested capital value of organizations (equation 5), then Tobin's  $Q$  estimates the ratio between the market and replacement value of an organization's assets (equation 6). However, the use of these indicators is limited because the market value of organizations is based on the future expectations of investors, and can only be estimated for organizations that have been listed on the stock market.

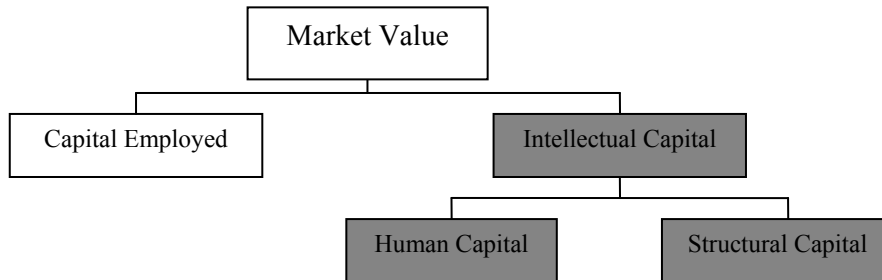
$$\text{MVA} = \text{organization market value} - \text{capital invested in the organization} \quad (5)$$

$$\text{Tobin's } Q = \text{market value of assets} / \text{replacement value of assets} \quad (6)$$

The value added intellectual coefficient (VAIC) method developed and proposed by Pulic (2000a) is free from this limitation and could be used for organizations that are not listed on the stock market. Pulic (2000b) defines the



VAIC so that it indicates the efficiency of value creation and the intellectual ability of organizations. The VAIC method follows the Scandia Navigator framework of intellectual capital (figure 17) by using accounting based figures.



**Figure 17.** The Skandia Navigator framework of intellectual capital  
Source: Pulic (2000a)

The Scandia Navigator framework distinguishes human intellectual capital (HC) and structural capital (SC) (figure 17). Briefly, human capital is a collection of intangible resources that are embedded in the members of the organization. Bontis *et al* (1999) divide human capital into three main types: competencies (including skills and knowledge); attitude (motivation and leadership qualities of the top management); and intellectual agility (the ability of organizational members to be innovative and entrepreneurial, and the ability to adapt, etc.). The essence of structural capital is the knowledge and skills embedded within the routines of an organization. Edvinsson (2002) defined structural capital as everything that remains in the company after 5 o'clock – when the employees have left. According to Bontis *et al* (1999), structural capital is divided into three main components: relationship-based (with any type of external actors: suppliers, customers, allies, local communities, government, shareholders, etc.), organizational (including structure, culture, routines and processes), and renewal and development (all the projects for the future: R&D, new plants, new products, business project research, etc.).

The VAIC calculation method developed by Pulic (2000a) is based on five steps. In the first step value added (VA) is calculated as the difference between output and input expenses (equation 7), where input expenses does not include labour expenses (Pulic, 2000a). Also, capital depreciation not included in input expenses for the calculation of total value added (Eedo, 1997:92). This is important because the value of the depreciation highly depends on the accounting policy of each single organization. The second step calculates the value added capital coefficient (VACA), where capital employed includes both real and financial capital (equation 8). The third step calculates the value added human capital coefficient (VAHU) (equation 9), where payroll costs from the income statement are taken as an equivalent for human capital (HC). These

payroll costs are suggested by Leif Edvinsson and Karl Erick Sveiby as a reasonable proxy for HC (Pulic, 2000a:707). The fourth step concerns the value added structural capital coefficient (STVA). Pulic (2000a) calculates the STVA coefficient as a share of structural capital (SC) in the created value (equation 10) where SC and HC are in reverse proportion in VA (equation 11). In the final step the value added intellectual capital coefficient (VAIC) is gained by summarizing the aggregated stocks of intellectual capital coefficients (equation 12).

$$VA = \text{output} - \text{input} \quad (7)$$

$$VACA = VA / \text{Capital Employed} \quad (8)$$

$$VAHU = VA / HC \quad (9)$$

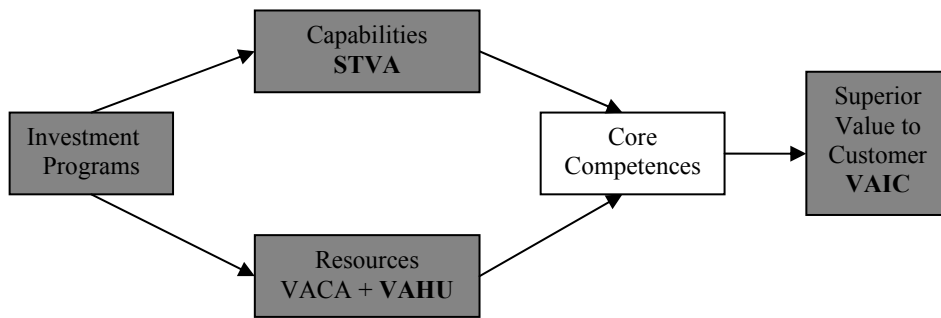
$$STVA = SC / VA \quad (10)$$

$$SC = VA - HC \quad (11)$$

$$VAIC = VACA + VAHU + STVA \quad (12)$$

Moreover, the method proposed by Pulic (2000a) allows us to calculate and use not only VAIC, but also its aggregated components of intellectual capital such as VAHU and STVA. Finally, and most importantly, Pulic (2000b) has shown a strong correlation ( $r = 0.79$ ) between VAIC and MVA in his investigation, which is a significant argument for using VAIC as a market-based financial performance indicator. In addition, components of intellectual capital (VAHU and STVA) separately indicate value creation efficiency in terms of both human capital as an internal resource, and structural capital as the capability of the organization (figure 18).

In a modern economy, intellectual capital as hidden assets or intangible resources (Roos and Roos, 1997) becomes increasingly important in the value creation process in organizations. Roos and Roos (1997) claim that Tobin's  $Q$  ratio is getting larger in most industries, not only in service industries, but also in all businesses where companies integrate advanced technologies, software, electronics and total solutions into existing products. Mayo (2001) also claims that the proportion of intellectual capital is more than 50% of an organization's value even in industries of production. As examples, he offers figures from the end of 2000, when the proportion of intellectual capital for BP was 74%, for 3M was 82% and for ABB was 85%. The resource-based view combined with VAIC performance indicators is the best way to visualize this value creation in organizations – both internally and externally (figure 18).



**Figure 18.** Intellectual capital creation within the framework of the resource-based view  
Source: formulated by the author on the basis of McGee (2006a), Pulic (2000a)

*Notes: VAIC – value added intellectual capital coefficient; VAHU – value added human capital coefficient; VACA – value added capital coefficient; STVA – value added structural capital coefficient*

Organizational leadership has intangible properties both at the individual and the organizational level. At the individual level, leadership skills and knowledge of organizational members are represented by human capital, and at the organizational level, where knowledge and skills are integrated into the structure of the organization, they are represented by structural capital. And finally, together as intellectual capital, they result in competitive advantage via value creation for customers and in organizational success in a dynamic economic environment. This allows us to make the following proposition:

**Proposition 3c (P.3c):** *Organizational leadership capability has a relationship with organizational performance measured as value added via intellectual capital with its components in organizations.*

Non-financial performance indicators such as market share, customer satisfaction and corporate social performance (CSP) (figure 16) concern strategic environmental activities in organizations more compared to the concerns of financial performance indicators. Market share is the most used indicator in business level strategies, which deal with industry and the competitive/ operating environment<sup>4</sup>. According to Channon (2006), relative market share determines the competitive position of organizations in the competitive environment. Market share is also used as an indicator for measuring the concentration of an industry's structure. Concentration here refers to the number and size distri-

<sup>4</sup> According to Pearce and Robinson (2009:94), the industrial environment deals with entry barriers, supplier power, buyer power, substitute availability, competitive rivalry, and competitive or operational or task environment deals with competitors, creditors, customers, labour and suppliers.

bution of firms competing within a market (Grant, 2004:78). The other most used indicator in business level strategies is customer satisfaction, which concerns the demand side of the market. Gratton (2000:78) highlights the positive relationship between customer satisfaction and incremental revenue increases. From both important competitive and customer sides of the market the identification of critical success factors emerge (Grant, 2004:97) that mark the strategy of organizations at the business level in their competitive environment.

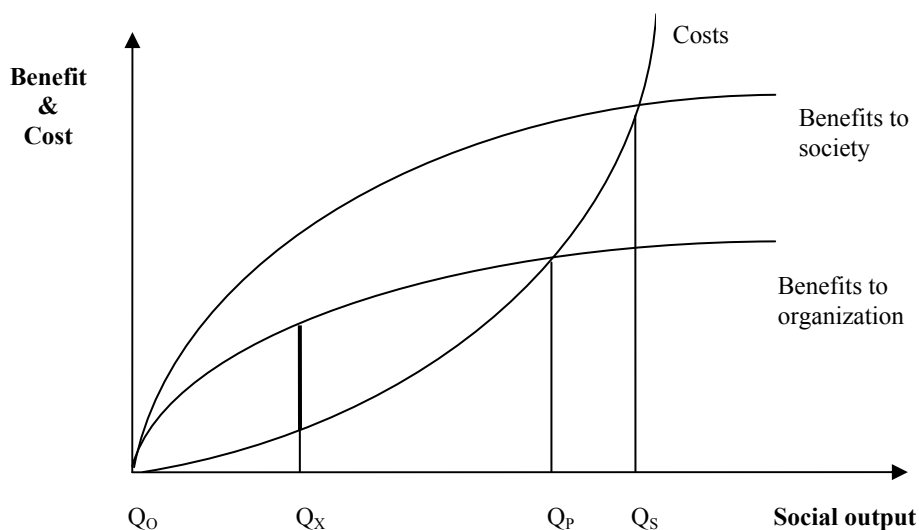
Measuring the behaviour of organizations in the industrial and competitive environment, which only concerns two self-interest parties (customers and owners) in the maximization of their value, only provides a narrow direction for strategy creation. This is an issue of value capture in a zero-sum game between competitors and customers. However, in real life, organizations also face the expectations of members of the broader environment to maximize the volume and distribution of social wealth among members of society (Becerra, 2009). The stakeholder approach with the concept of CSP focuses on this issue.

The stakeholder approach outlines the mutual impacts of an organization's relationships with a broad variety of stakeholders (Wood, 1991). Stakeholders are defined by Freeman (1984:49) as groups who can affect or are affected by the achievement of an organization's purpose. According to Freeman (1998) these groups are: owners, the financial community, activist groups, suppliers, government, political groups, customers, customer advocacy groups, unions, employees, trade associations and competitors. Relying on Henriques and Sadorsky, Maginan and Ferrell (2004:4) regroup the different stakeholders into four main categories: organizational (e.g. employees, customers, shareholders, suppliers); community (e.g. local residents, special interest groups); regulatory (e.g. municipalities, regulatory systems); and media stakeholders. Also, many authors group them into two main categories – internal and external stakeholders (e.g. Pearce and Robinson, 2009; Avgeropoulos, 2006).

CSP is defined as a business organization's configuration of principles of social responsibility, processes of social responsiveness, and observable outcomes as they relate to the organization's social relationships (Wood, 1991). Griffin (2000) uses the definition where CSP is viewed as the social outcomes of the firm's behaviours. She also, argues that this is similar to the words *corporate social performance* because both of them focus on the impact of firm-centric activities on their social environment. Under these conditions, outcomes represent the joint product of organizational performance and environmental responses (Griffin, 2000:481). Additionally, Becerra (2009) highlights relations between social output<sup>5</sup> and costs with benefits to the organization and to society (figure 19).

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<sup>5</sup> Griffin (2000:481) states that outputs are goods and services where organizations typically exercise considerable control over their characteristics.



**Figure 19.** Cost-benefit analysis of CSP activities for the organization and society  
Source: Becerra (2009:233)

In the figure 19,  $Q_X$  and  $Q_S$  mark two external points. According to neoclassical economics, organizations only maximize shareholder wealth at point  $Q_X$ , where Pareto-efficiency characterizes production but not distribution in society. The other side (point  $Q_S$ ) maximizes wealth for society that the costs could provide. However, any level of social output above  $Q_P$  will require some type of government intervention. When organizations increase their social output from  $Q_X$  to  $Q_P$ , they are not contributing to maximizing economic value, but are increasing social welfare as much as they can without negatively affecting their core business activities (Becerra, 2009). There are two arguments for organizations increasing social output from  $Q_X$  to  $Q_P$ . First is an ethical argument – moral obligations that lead shareholders and managers to transfer the wealth from shareholders to the rest of society. Second is a strategic argument – to increase the organization's reputation as a socially responsible agent, which allows organizations to increase their market share and gain competitive advantage through economies of scale. The latter refers to the relationship between CSP and the financial performance of the organization. A positive relationship between CSP and financial performance was confirmed by Orlitzky, Schmidt and Rynes (2003) in their meta-analysis, and by Margolis and Walsh (2001). Moreover, both studies found a mutual affect between CSP and financial performance. Margolis and Walsh (2001:10) found a positive relationship (53%) with CSP as an independent variable in 80 out of 95 studies, and results (68%) with CSP as a dependent variable in 19 of the 95 studies.

To estimate CSP, several scholars such as Carroll (1979), Wartick and Cochran (1985), and Wood (1991) have developed CSP models, and these are compared in table 10. These models are quite similar in the sense that they have three main similar facets. The first of them – corporate social responsibility (CSR) – concerns how the business integrates social demands with its dependence on society. Social demands are generally considered to be the way in which society interacts with business and gives it a certain legitimacy and prestige. Using this description, Carriga and Mele (2004) put it into the category of integrative theories, which focus on the integration of social demands. The second facet – social responsiveness – is placed in the category of ethical theories described by Carriga and Mele (2004) as theories or approaches that focus on the ethical requirements that cement the relationship between the organization and society. This highlights principles that define the right thing to do or the necessity to achieve a good society. The third – the social issues (management) and outcomes of corporate behaviour – emphasizes the self-interest of the organization acting in their business environment. The first two CSP models view the interaction between organizations and the social environment in a broader sense than the latter. Therefore, CSR and ethics as CSP indicators are used in this dissertation (figure 16).

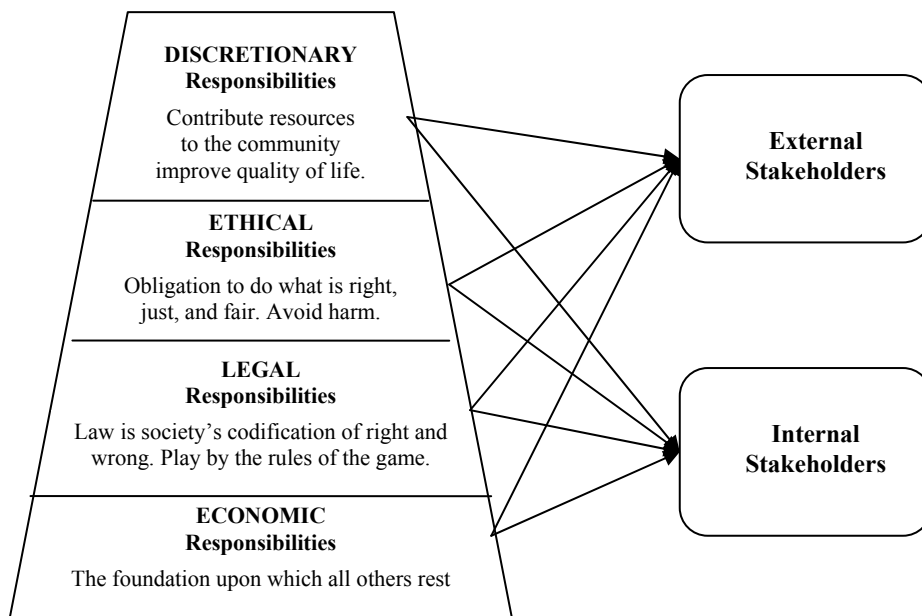
**Table 10.** Comparison of three approaches to corporate social performance

Carroll (1979)	Wartick and Cochran (1985)	Wood (1991)
Social responsibility categories	Corporate social responsibilities	Principles of corporate social responsibility
Philosophy of social responsiveness	Corporate social responsiveness	Processes of corporate social responsiveness
Social issues involved	Social issues management	Outcomes of corporate behaviour

Source: compiled by the author

CSR as one important part of CSP (e.g. Wood, 1991; Wartick and Cochran, 1985; Carroll, 1979) has been more precisely defined by Carroll (1979). According to Carroll (1979:499), CSR addresses the entire range of obligations business has to society, which is embodied in four categories of responsibility within business performance: economic, legal, ethical and discretionary responsibility. These categories are not equal to each other and are introduced in the form of a pyramid by Carroll (1991), where the base forms economic responsi-

bility and the top discretionary responsibility<sup>6</sup> (figure 20). Wood (1991) suggests that these first two (economic and legal) represent a narrow view of CSR. Economic and legal responsibility here represents profit maximizing for the owners and shareholders by producing the goods and services that society wants. This profit-maximizing view, advocated by Milton Friedman, argues that the corporation should operate on a profit-orientated basis, with its sole mission to increase profits as long as it stays within the rules of the game (Friedman, 1962:133). Describing ethical responsibilities, Carroll (1991) argues that economic and legal responsibilities embody ethical norms about fairness and justice, and ethical responsibilities embrace those activities and practices that are expected or prohibited by societal members even though they are not codified in law. In addition, at the top of pyramid (figure 20), discretionary responsibilities are those about which society has no clear-cut message for the business – even less than for ethical responsibilities (Carroll, 1979). According to Carroll (1991), this includes actively engaging in acts or programs to promote human welfare or goodwill.



**Figure 20.** The pyramid of CSR with two main groups of stakeholders  
Source: completed by the author on the basis of Carroll (1991)

<sup>6</sup> Carroll (1979:499) has presented this inequality – economic > legal > ethical > discretionary – in his earliest paper as well.

CSR and its four divisions is the social outcome of organizational behaviour directed towards a large variety of different stakeholders drawn together into two main groups (figure 20). These two groups are internal stakeholders (e.g. employees and managers), and external stakeholders (e.g. investors, strategic partners, customers, suppliers and other pressure groups) (Avgeropoulos, 2006). It is well known that management processes influence different groups of stakeholders differently. Therefore, businesses and management processes consider the expectations of stakeholders in their CSR orientation (Carroll, 1991), and a different focus on stakeholder's results in a different orientation in the organization's CSR. Leadership as a central part of management processes influences this orientation of CSR. Based on the stakeholder model of organizational leadership, Schneider (2002) claims that leader's attributes in terms of cognitive, social and behavioural complexities have a positive relationship with leader effectiveness. In spite of the fact that Schneider (2002) uses the term "organizational leadership", she nevertheless deals with traditional individual level principles of leadership. However, organizational leadership where leadership properties have been embedded in the structure of organizations have a relationship with organizational effectiveness for different groups of stakeholders. This allows us to make the following proposition:

**Proposition 4a (P.4a):** *Organizations with higher organizational leadership capability have a higher degree of CSR.*

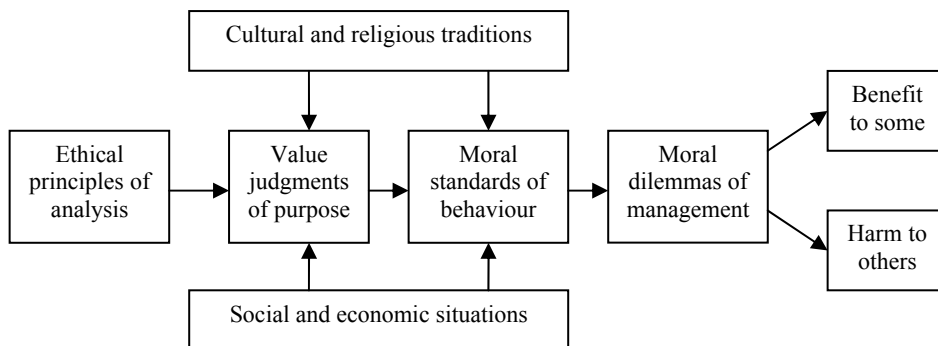
Corporate social responsiveness as the second facet of the CSP model (table 10) is defined by Frederick as the capacity of a corporation to respond to social pressures (Wood, 1991:703). According to Wartick and Cochran (1985) social responsiveness is a process that is targeted at both the social contract and the moral agency of business. Additionally, Wood (1991) argues that the concept of responsiveness has been an incentive for incorporating ethical philosophy into social issues in management research. More broadly, ethics deals with human action and its moral adequacy. Business ethics deals with business action – individual or corporate – with special attention to its moral adequacy (Goodpaster, 1998). According to Hollar (1998), business ethics is a particular type of social ethics. Also, social ethics is concerned more with social or institutional and professional policies and practices than individual behaviour (Hollar, 1998). This represents organizations as single units with their business duties in general toward society as a whole. This is close to the strategic understanding, where the strategy of the organization relates not only to its economic environment, but also to its social and political environment.

The strategic process, which concerns the social environment in terms of ethical principles, is represented by Hosmer (1994). In order to open up the nature of ethical principles, Hosmer (1994) uses distinctions between morals, values and ethics (figure 21). In the beginning, the behaviour of individuals or groups towards others depends on their moral standards of behaviour. Moral



standards have been more formally defined by Hosmer (1987:96) as the means by which we judge our actions, and those of our neighbours. According to Beauchamp and Bowie (1979:3), moral standards are the expectations of society relative to the conduct of an individual that affects the interests of other people. Those expectations of society vary with the background of the individual and the culture of the society; also, they are personal and vary from individual to individual (Hosmer, 1994).

The second aspect of the behaviour of individuals or groups is value judgements, which dominate over the moral standards (figure 21). According to Hosmer (1994), this refers to how most people decide what is “right” and “just” and “fair” when confronting a moral problem in which some individuals or groups are to be hurt or harmed in some way, while others are to be benefited. As with moral standards, value judgements are personal, and vary from individual to individual, and depend on religious/cultural traditions and economic/social situations. Also, neither of them is objective, consistent and timeless (Hosmer, 1994). Thirdly, ethical principles are the basic rules that have been proposed to ensure a “good” society, and a “good” society is one in which people willingly cooperate for the benefit of all (e.g. Hosmer, 1994; Hobbes, 1986; Nozick, 1974; Rawls, 1971). According to Hosmer (1994), ethical principles are the fundamental rules by which an individual can, if he or she chooses and has the necessary knowledge of the principles, examine his or her moral standards and verify his or her value judgements. As opposed to moral standards and value judgements, ethical principles do not differ between people; they remain exactly the same across cultural groups, national states and historical periods (Hosmer, 1994).

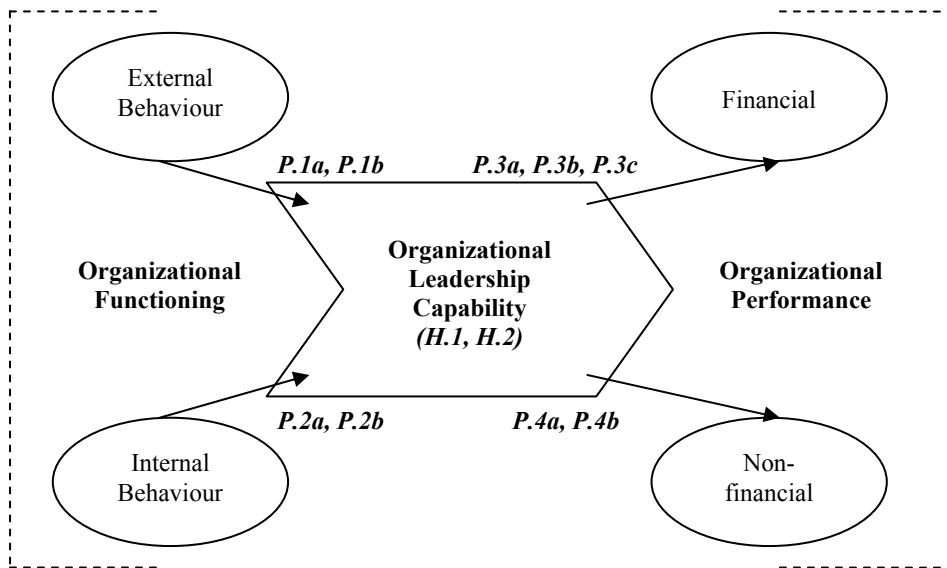


**Figure 21.** The relationship between morals, values and ethics  
Source: Hosmer (1994:24)

The reputation of organizations is one indicator of social performance (Orlitzky *et al*, 2003), which indicates the attitudes of society to the behaviour of organizations from the perspective of ethical principles. Jones (1995) argues that it is a cumulative result of the organization's policies and decisions with respect to a broad variety of stakeholders. Also, this is in accordance with Child's (1972) concept of "strategic choice", which emphasizes the capacity of managers to make strategic decisions influenced by their own perceptions and values. In addition, the strategy that becomes a form of leadership addresses human values and purposes, wants and needs (Morrill, 2007:135). Therefore, leadership embedded in the organizational structure expresses the ethical behaviour of the organization towards society as an outcome. This allows us to make the following proposition:

**Proposition 4b (P.4b):** *Organizations with higher organizational leadership capability have greater respect in society.*

The propositions for exploratory study were formulated and assembled as a research framework, which is presented in this chapter (figure 22). Two main critical aspects of organizational effectiveness – organizational functioning and organizational performance – have both been divided into two subparts in order to formulate the propositions. Organizational functioning represented by the internal and external behaviour of organizations describes the organizational capability of leadership externally in terms of the industrial environment (P.1a, P.1b), and internally in terms of job satisfaction (P.2a, P.2b). Organizational performance such as financial and non-financial outcomes are influenced by organizational leadership capability. The relationship of organizational leadership capability to added value in the organization (P.3a, P.3b, P.3c) is measured using financial indicators, and the relationship to social performance (P.4a, P.4b) is measured using non-financial indicators.



**Figure 22.** Research framework for investigating organizational leadership capability and its relationship with organizational functioning and performance

Source: compiled by the author

Notes:  $\longrightarrow$  – relationships of propositions; P.1a...P.4b – propositions; H.1, H.2 – hypotheses

Table 11 summarizes all research hypotheses and propositions, which were formulated in the theoretical part for investigating organizational leadership capability and its relationship with organizational functioning and performance.

**Table 11.** Hypotheses and propositions set up for empirical analysis

Category	Sub-category	Keywords	Hypotheses and propositions
Organizational Leadership Capability	Interaction between AI & Coh and AIN	Cohesiveness	<b>Hypothesis 1:</b> <i>Organizational cohesiveness is expected to have a positive relationship with organizational performance.</i>
	Interaction between AI & Coh and CFS	Strategic focus	<b>Hypothesis 2:</b> <i>The collective ability to explain the everyday activities of individuals within the strategic objectives of an organization is expected to have a positive relationship with organizational performance.</i>
Organizational functioning	External behaviour	Industrial environment	<b>Proposition 1a:</b> <i>High-skills services have higher organizational leadership capability than low-skill services.</i>
			<b>Proposition 1b:</b> <i>Organizations with higher competitive behaviour have higher organizational leadership capability than organizations with lower competitive behaviour.</i>
	Internal behaviour	Job satisfaction	<b>Proposition 2a:</b> <i>Groups in an organization with higher intrinsic job satisfaction of employees have higher organizational leadership capability than groups with lower intrinsic job satisfaction of employees.</i>
			<b>Proposition 2b:</b> <i>Groups in an organization with higher extrinsic job satisfaction of employees have higher organizational leadership capability than groups with lower extrinsic job satisfaction of employees.</i>
Organizational performance	Financial	Value increase	<b>Proposition 3a:</b> <i>Organizational leadership capability has a relationship with internal organizational efficiency (or profit) and external sales growth.</i>
			<b>Proposition 3b:</b> <i>Organizational leadership capability has a relationship with organizational profitability measured using profit ratios such as return on sales (ROS) and return on assets (ROA).</i>
			<b>Proposition 3c:</b> <i>Organizational leadership capability has a relationship with organizational performance measured as value added via intellectual capital with its components in organizations.</i>
	Non-financial	Social performance	<b>Proposition 4a:</b> <i>Organizations with higher organizational leadership capability have a higher degree of CSR.</i> <b>Proposition 4b:</b> <i>Organizations with higher organizational leadership capability have greater respect in society.</i>

Source: compiled by the author

Notes: AI & Coh – Alignment and cohesion; AIN – Architecture of internal network; CFS – Control-feedback system; CSR – corporate social responsibility

All the propositions in figure 22 and table 11 explain the relationship between organizational leadership capability and variables of organizational functioning (job satisfaction and the industrial environment) and organizational performance (added value and social performance). More precisely:

- the relationship with the industrial environment will be assessed in two different service industries (P.1a) and in one single service industry (P.1b);
- the relationship with job satisfaction will be assessed in the individual domain (P.2a) and the organizational domain (P.2b);
- the relationship with added value will be assessed using traditional financial indicators (P.3a and P.3b) and new financial indicators that concern intangible assets – intellectual capital (P.3c);
- the relationship with social performance will be assessed using organizational activities geared towards social responsibility (P.4a) and towards the ethical behaviour of the organization (P.4b).

These formulated propositions allow us to go on with the exploratory study, which attempts to bring out the main characteristics of organizational leadership capability via the investigation of the relationship between organizational leadership capability and organizational effectiveness.

## 2. EMPIRICAL STUDY OF ORGANIZATIONAL LEADERSHIP CAPABILITY AND ITS RELATIONSHIP WITH ORGANIZATIONAL EFFECTIVENESS BASED ON THE EXAMPLE OF SERVICE ORGANIZATIONS

### 2.1. The research outline and methodology

The empirical study of this dissertation analyses the capability of organizational leadership in terms of organizational behaviour and its influence on organizational performance. To analyse organizational leadership capability and test the set of propositions in subchapter 1.3, a measurement tool of organizational leadership capability was required the framework of which has been described in subchapter 1.2. The development of this measurement tool is one important part of this empirical study.

Figure 23 summarizes different methods with organizational samples, which are divided between the three stages of the empirical research. *The first stage* of the empirical research consists of the development of the items pool for the questionnaire and the questionnaire itself. The development of the questionnaire started in 2004 and data collection was carried out in the period 2005–2007. In order to guarantee sufficient variation for the development of the questionnaire, six organizations with a total sample of 445 from different branches of industries were employed in this stage. The development of the questionnaire is introduced in chapter 2.2. *The second stage* of the empirical research focuses on the evaluation of the measurement tool and its ability to measure the capability of organizational leadership. Data collection for this study was carried out in the period 2006–2008. For homogeneity purposes, eight organizations with a total sample size of 555 from the financial services sector were chosen for this stage of the research. Also, financial statements were used from these organizations for 2004 to 2007. This evaluation of organizational leadership capability provides a pattern of organizational leadership factors, which is important for testing the propositions in the next stage of the research, and is introduced in subchapter 2.3. *The third stage* of the empirical research tests the propositions, which opens up two aspects of organizational effectiveness from the perspective of organizational functioning (P.1a, P.1b, P.2a, and P.2b) and organizational performance (P.3a, P.3b, P.3c, P.4a, and P.4b). Data were used from previous stages along with additional new data collected using the questionnaire in 2009 (in one IT organization) and qualitative data (interviews and document analysis) collected in the period 2008–2010 (February) for two banks, two retail sales organizations and one IT organization. The testing of the propositions is introduced in subchapter 2.4.

*An analysis of the written material and expert judgements* (figure 23) was conducted to facilitate designing the statements of organizational leadership capability in the measurement tool. Single statements were developed by the author and two experts according to the factors of the measurement framework

of organizational leadership capability (figure 8 in subchapter 1.2). Other experts were also engaged to estimate the relevance, clarity, and conciseness of the statements as suggested by De Vellis (2003:86).

A *Partial Least Squares* (PLS) regression (figure 23) was employed as a proper method of analysis for designing the composition of the statements in independent constructs of the questionnaire. Barclay, Thompson and Higgins (1995), Chin and Newsted (1999), and Bontis *et al* (2002) suggest PLS as a technique that works well with small numbers of samples and suits exploratory research contexts. The PLS technique allows the following tests: loading ( $\lambda$ ) calculation of items (statements); internal consistency (InC); and Average Variance Extracted (AVE)

The PLS item-loading ( $\lambda$ ) test assesses the reliability of each individual item (statement) by examining the loadings of the measures with their respective construct. According to Hulland (1999), 0.7 or more is an acceptable loading value and items with loadings of less than 0.4 or 0.5 should be dropped. A low loading may be the result of (Hulland, 1999:198):

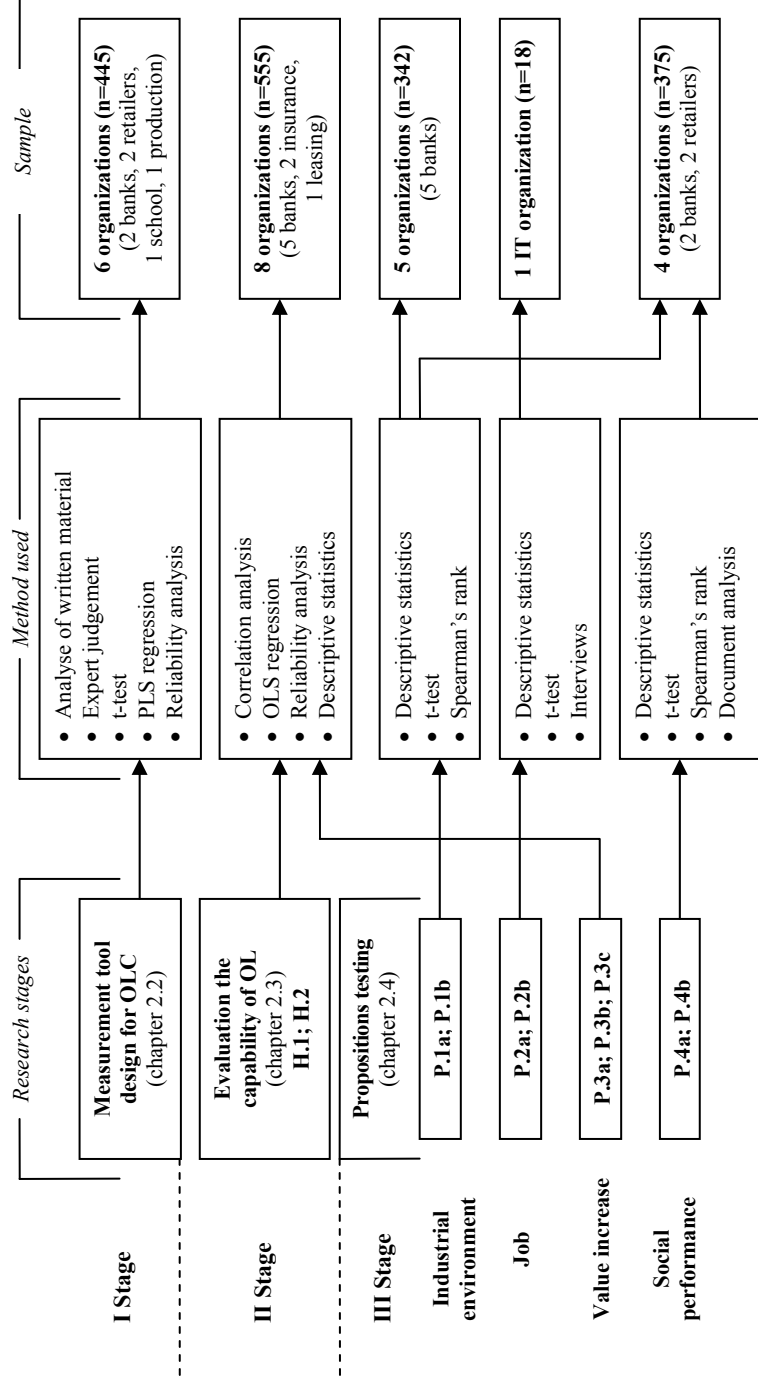
- a poorly worded item;
- an inappropriate item;
- or the improper transfer of an item from one context to another.

The internal consistency (InC) measure developed by Fornell and Larcker (1981) assess the composite reliability of each single construct (Hulland, 1999: 199) by using PLS item loadings. This measure is similar to Cronbach's alpha but unlike Cronbach's alpha, it does not assume that all indicators are equally weighted. Fornell and Larcker (1981) argue that their measure is superior to Cronbach's alpha since it uses the item loadings estimated within the causal model (Barclay *et al*, 1995:297). Hulland (1999) suggested an InC value of 0.7 as a benchmark and to avoid extremely low internal consistency (i.e. less than 0.5). He also highlights three reasons for InC low values:

- a variety of underlying causes;
- a poor construct definition;
- and/or construct multidimensionality.

The Average Variance Extracted (AVE) test is the most suitable test in PLS for estimating how the constructs suit the whole model, and it is understood as an estimation of discriminant validity (Fornell and Larcker, 1981; Barclay *et al*, 1995; Hulland, 1999). Bontis *et al* (2002) use AVE for the estimation of convergent validity and square root AVE for the estimation of discriminant validity. Fornell and Larcker (1981) suggest an AVE value of at least 0.5 – therefore the benchmark of the square root AVE is 0.7.

The *reliability* of each scale construct is also assessed using Cronbach's alpha test. The Cronbach's alpha test estimates the composite reliability of the factors in the measurement tool in chapters 2.2 and 2.3 (figure 23). Nunnally (1978:245) and Hulland (1999) suggest a Cronbach's alpha value of 0.7 as a benchmark. However, a Cronbach's alpha value of 0.85 and greater indicates good internal reliability of the construct (Bontis, 2002).



**Figure 23.** The stages of the empirical research and components of the research methodology

Source: compiled by the author

Notes: OLC – organizational leadership capability; OL – organizational leadership; IT – information technology



The *two-sample t-test* was used to estimate the homogeneity of the samples in subchapter 2.2, and differences in the mean estimations of organizational leadership capability factors between two groups in an organization (propositions P.2a and P.2b) (figure 23).

The *paired-samples t-test* was used to identify differences in the mean estimations of organizational leadership capability factors in the individual organization sample (propositions P.1a, P.1b, P.4a and P.4b) (figure 23). This test makes it possible to compare the means of two variables for a single group, computing the differences between the values of the two variables for each case, and tests whether the average differs from zero.

*Correlation analysis* was used to estimate the relationship between factors of organizational leadership capability, and between organizational performance and factors of organizational leadership capability, the kind of relationship that exists (positive or negative) and the strength of the relationship. Pearson's correlation coefficient was calculated for evaluating this relationship and the assessment of the possibility of multicollinearity between factors of organizational leadership capability in subchapter 2.3. The strength of the correlation was interpreted using the value of the correlation coefficient as follows:  $|r| \leq 0.3$  a weak correlation;  $0.3 \leq |r| \leq 0.7$  a medium correlation; and  $|r| \geq 0.7$  a strong correlation (Parring, Vähi and Käärik, 1997:190).

*Spearman's rank* correlation coefficient was used as a non-parametric statistic for testing propositions P.1b and P.4a. Spearman's correlation coefficient values ranges between +1 and -1, where "-" refers to a negative relationship between two variables and "+" refers to a positive relationship. Coefficient values  $|r| \leq 0.1$  represent a small effect,  $0.1 \leq |r| \leq 0.3$  represent a medium effect and  $|r| \geq 0.5$  represent a large effect (Field, 2005). However, in this thesis, the strength of the Spearman's correlation effect was not tested because the size of the samples was small. In this situation, the significance (at least 0.05) of the correlation is most important, and proves the relationship between the two variables (Grinyer and Norburn, 1975:84).

*Regression analysis* is a method for finding out how one or more independent variables influence a dependent variable. In this dissertation the Ordinary Least Squares (OLS) regression was used to determine the pattern of organizational leadership capability by estimating interactions between factors of organizational leadership as independent variables influence organizational performance as a dependent variable. In order to find out the significance of independent variables, their parameters were estimated using the t-test for testing hypothesis 1 and 2. In estimating regression model fit, the significance of regression was investigated using Analysis of Variances (ANOVA) and the coefficient of determination ( $R^2$ ) for the regression was calculated. Here, when the sample size is a large enough (e.g.  $n=400$ ) then the value of  $R^2$  is more important than the significance level of the regression (Thorne and Giesen, 2003:314). The values of  $R^2$  range between 0 and 1. In social science, an  $R^2$  value between 0.05 and 0.1 could be considered a "good" fit (Thorne and Giesen, 2003:314).

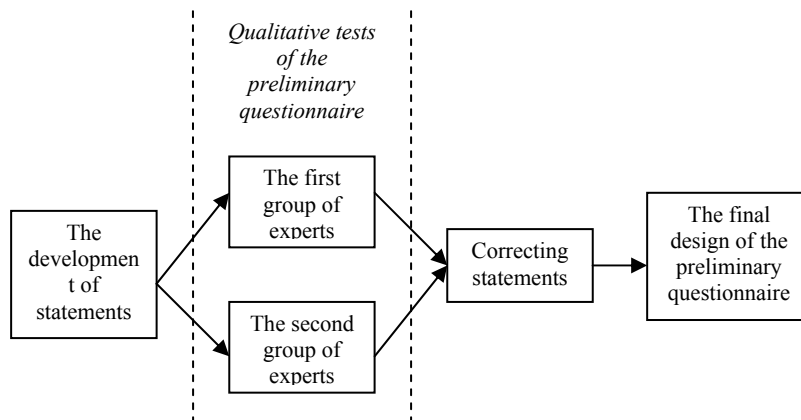
*Interviewing* is a research method for collecting a wide range of qualitative data. Semi-structured interviews were used to evaluate the intrinsic and extrinsic job satisfaction facets of employees in the study to test propositions P.2a and P.2b. Semi-structured interviews with open-ended questions is the most suitable method for small samples (Silverman, 2005:111). In-depth interviewing techniques were executed in the process of interviewing respondents. This technique makes it possible to understand the experience of respondents and the meaning they make of that experience (Seidman, 2006:9). All these allow us to treat the respondents' answers in terms of external reality (e.g. facts, events) and internal experience (e.g. feelings, meanings) in the analysis.

*Document analysis* is a research method, which uses recorded information about the objects of research from a heterogeneous group of sources. This dissertation limits its sources to internet homepages and online mass media publications and combines these with the analysis of experts. Qualitative content analysis is the most common method for analysing these documents (Bryman and Bell 2003:417). Internet homepages as documents were analysed to test propositions P.4a and P.4b, and additional online mass media outputs were analysed for proposition P.4b only.

## 2.2. Designing a tool for measuring organizational leadership capability

The tool for measuring organizational leadership capability has been designed according to the framework of organizational leadership (figure 8 in subchapter 1.2). In order to create such a measurement tool as a questionnaire it was designed via a three-step process.

*In the first step*, the original statements for the preliminary questionnaire were developed by a group of three experts, then tested in turns by two groups of experts and corrected after each test by the original group (figure 24).



**Figure 24.** First step in the process of designing the questionnaire  
Source: compiled by the author

The questionnaire itself has been designed using a path model with latent variables, and consists of dependent and independent variables (equation 13).

$$Y_i = \lambda_{1,i} X_{1,i} + \lambda_{2,i} X_{2,i} + \lambda_{3,i} X_{3,i} + \lambda_{4,i} X_{4,i} \quad (13)$$

The design of the independent variable questionnaire is based on the organizational leadership measurement framework (figure 8 in subchapter 1.2). The composition of this questionnaire includes four factors ( $X_1$ ,  $X_2$ ,  $X_3$ ,  $X_4$ ) according to equation 13. These factors are:  $X_1$  for alignment and cohesion;  $X_2$  for informal communication as a subpart of the architecture of the internal network;  $X_3$  for the extent of centralisation as a subpart of the architecture of the internal network; and  $X_4$  for the control-feedback system. Altogether, the independent variables questionnaire includes 62 statements.

The dependent variable (Y) questionnaire has been worked out to estimate the validity and reliability of the independent variable questionnaire. The composition of this questionnaire consists of one construct for performance estimation and includes 6 statements. All in all, the full preliminary questionnaire includes 68 statements.

In designing the questionnaire, a seven-point scale (strongly disagree to strongly agree) has been used as suggested by Osgood, Suci and Tannenbaum (1957), and all the statements are closed statements. The validity of all these statements was tested using two groups of experts: the first group included employees from the Lääne-Viru School of Applied Sciences; the second group included PhD students and faculty members from the Faculty of Economics and Business Administration at the University of Tartu (figure 24).

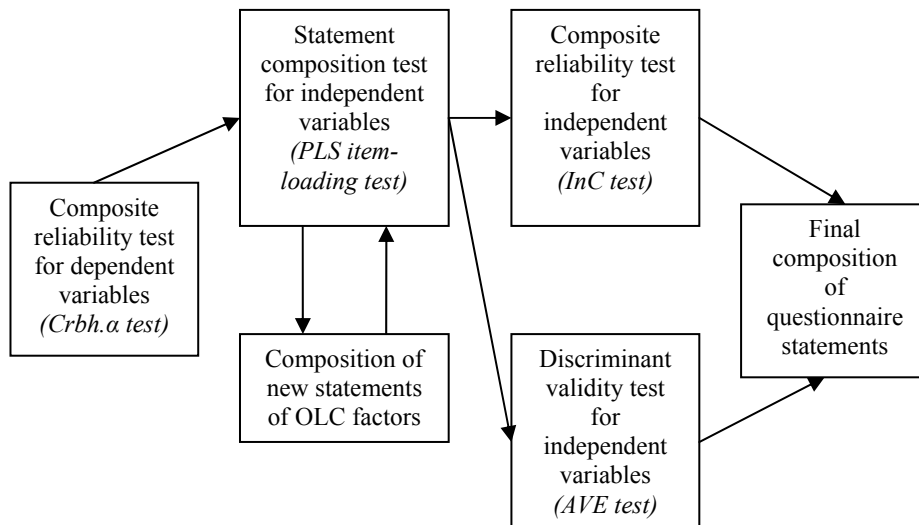
*The second step* in testing and designing a preliminary questionnaire of institutional leadership was carried out in six organizations in Estonia. The employees from two of the largest banks ( $n=111$  and  $n=73$ ), the two largest retail organizations ( $n=82$  and  $n=109$ ), one small school ( $n=45$ ) and one medium-sized industrial company ( $n=25$ ) participated in the empirical study. A total of 445 questionnaires were completed.

*In the third step*, the results of the preliminary questionnaire from the six organizations were analysed in order to formulate the final design of a questionnaire on organizational leadership capability (figure 25). The results were treated according to the Student t-test, Cronbach's alpha, and *Partial Least Squares* (PLS) tests: loading ( $\lambda$ ) calculation of items (statements); internal consistency (InC); and Average Variance Extracted (AVE).

The Student t-test was performed to estimate whether the variety of the test results corresponded with the actual variety inside each organization tested. The Student t-test was applied in order to examine the differences in the real distribution of different groups in the samples compared to the planned (estimated) distribution within the samples before carrying out the tests in the organizations (table 12). The real distribution inside the samples, which is close to the planned distribution in the samples of organizations, allows the best selection of individual questions for the final composite of factors on the basis of the analyses of

the reliability and validity of the test results in the next step. The t-test was carried out for every item in the preliminary questionnaire. For this purpose, the results of earlier planned groups in the samples in five organizations were used in pairs according to the numbers of groups in each organization. According to the t-test statistical hypothesis “that between the results of the groups in pairs, no significant difference to the level  $\alpha = 0.05$  ( $p > \alpha$ )” was found.

All 445 observations in the samples were divided into several groups except in the smallest organizational sample – the industrial company. This sample includes only specialists and administrative staff. In the remaining organizational samples the respondents were chosen from different hierarchical levels or different geographical locations in the organization. This distribution within the samples allows us to analyse the validity and reliability of single statements with a distinct variety between different groups at that entire organizational level.



**Figure 25.** Analysis process for designing the final questionnaire

Source: compiled by the author

Notes: *Crbh.alpha* – Cronbach’s alpha, *PLS* – Partial Least Squares, *OLC* – Organizational Leadership Capability, *InC* – internal consistency, *AVE* – Average Variance Extracted

The t-test in five organizations (table 12) indicated differences between the planned and the real distribution of different groups inside the sample in three organizations. Finally, from the test samples in all six organizations, two were homogeneous and the remaining four were divided into two different groups.

**Table 12.** Inner distributions of samples in five organizations

Indicator	Org. n=45	Org. n=111	Org. n=73	Org. n=82	Org. n=109
Number of questions with t-test results ( $p < 0.05$ ) from 68 questions in the preliminary questionnaire	15	26	42	10	21
Number of questions with t-test results ( $p < 0.05$ ) from 22 questions in the final questionnaire	7	7	15	3	6
Number of different groups in sample (planned)	3	2	4	2	2
Number of different groups in sample (real)	2	2	2	1	2

Source: compiled by the author

Note: Org. – organization

Cronbach's alpha test was used for estimating the composite reliability of the dependent variable (Y) of the questionnaire (figure 25). It is important to test the dependent variable at the beginning, because only a positive result there would allow us to continue with the PLS tests for independent variables ( $X_1$ ,  $X_2$ ,  $X_3$ ,  $X_4$ ). Also, it is important to mention that Cronbach's alpha test is sensitive to the length of the test. According to Nunnally and Bernstein (1994), individual items may correlate poorly with true scores, but a 10-item test might correlate at 0.50 with true scores, and a 100-item test might correlate at 0.90 with true scores. The result of the Cronbach alpha test for dependent variable (Y) was fine ( $\alpha=0.89$ ;  $n=445$ ), even with a small 6-item (statements) test. The benchmark Cronbach alpha value has suggested 0.7 and values greater than 0.85 indicate excellent internal reliability of the construct (Bontis, 2002). All this allows us to continue with the PLS tests for designing the independent variables.

In order to design the composition of the statements in the independent variables (equation 13), a PLS item-loading ( $\lambda$ ) test was employed (figure 25). The loading values calculation using the PLS test allows us to estimate the reliability of individual statements inside each factor (Hulland, 1999). The values of the loadings ( $\lambda$ ) – an acceptable loading value is 0.7 or more, and items with loadings of less than 0.4 or 0.5 should be dropped (Hulland, 1999) – from all tests in six organizations have been compared with each other and a common pattern of reliable statements has been used for the new composition of the factor. A new composition of statements has been tested once more using PLS loadings ( $\lambda$ ) in each construct and the procedure described above has been followed successively until the right composition for each factor has been found.

The final composition of the independent variable corresponds to the four-factor model (equation 13) using the PLS item-loading test on the results of samples from six organizations. The test was carried out using sub-factors (table 13) and the loading value for each item (question) in the six sample organi-

zations was calculated. Items with a loading value of less than 0.5 or equal to 0.5 ( $\lambda \leq 0.5$ ), in at least one sample organization, were dropped from the construct and a new composition for each factor was found (table 13). The new composition of the constructs was then tested using the PLS item-loading test once more. In this test most of loading values were higher than 0.7 and some single lower loading values were between 0.5 and 0.7 ( $0.5 < \lambda < 0.7$ ).

**Table 13.** Composition designs for the independent factors

Construct	Preliminary composition	New (final) composition
Alignment and cohesion	$X_{1,(1-7)}$ ; $X_{1,(8-13)}$	$X_{1,(8,9,10,11)}$
Communication system	$X_{2,(1-6)}$ ; $X_{2,(7-11)}$ ; $X_{2,(12-16)}$	$X_{2,(7,8,9,11)}$
Extent of centralisation	$X_{3,(1-6)}$ ; $X_{3,(7-12)}$ ; $X_{3,(13-20)}$	$X_{3,(2,3,4,5)}$
Control-feedback system	$X_{4,(1-6)}$ ; $X_{4,(7-13)}$	$X_{4,(4,8,9,11)}$

Source: compiled by the author

Notes:  $X_{1,(1-7)}$  – main elements of strategy;  $X_{1,(8-13)}$  – strategic activity;  $X_{2,(1-6)}$  – horizontal flow of communication;  $X_{2,(7-11)}$  – informal flow of communication;  $X_{2,(12-16)}$  – climate of communication;  $X_{3,(1-6)}$  – organizational centralisation;  $X_{3,(7-12)}$  – organizational autonomy;  $X_{3,(13-20)}$  – organizational environment;  $X_{4,(1-6)}$  – individual processes;  $X_{4,(7-13)}$  – whole processes

At the next stage, the new composition of the factors (table 13) was subordinated to composite reliability tests: InC and AVE from the PLS (figure 25). The InC tests confirm the composite reliability of the new composition of each of the factors in the study (tables 14). All results of the InC test are higher than 0.7 (tables 14) and discriminant validity – square root AVE test results for each factor with their new composition in all six organizations were equal to 0.7 or higher than 0.7 (tables 14).

**Table 14.** Test results for independent variables

Factor	Indicator	Org. n=45	Org. n=111	Org. n=73	Org. n=82	Org. n=109	Org. n=25
$X_1$	Average	5.19	4.53	5.70	5.70	4.86	5.82
	SD	1.41	1.52	1.25	1.31	1.39	1.09
	InC	0.87	0.88	0.86	0.84	0.86	0.90
	root AVE	0.80	0.80	0.77	0.76	0.77	0.81
$X_2$	Average	4.26	4.42	5.38	4.83	4.33	4.91
	SD	1.67	1.61	1.51	1.67	1.69	1.52
	InC	0.82	0.88	0.92	0.80	0.80	0.78
	root AVE	0.74	0.81	0.87	0.71	0.72	0.70
$X_3$	Average	4.90	4.61	5.58	5.39	4.69	5.60
	SD	1.59	1.57	1.21	1.50	1.47	1.18
	InC	0.87	0.87	0.89	0.81	0.86	0.91
	root AVE	0.79	0.80	0.81	0.71	0.78	0.85

Factor	Indicator	Org. n=45	Org. n=111	Org. n=73	Org. n=82	Org. n=109	Org. n=25
X <sub>4</sub>	Average	4.90	4.74	5.90	5.54	4.77	5.53
	SD	1.63	1.55	1.21	1.37	1.48	1.33
	InC	0.87	0.87	0.82	0.88	0.87	0.90
	root AVE	0.79	0.79	0.73	0.80	0.79	0.84

Source: compiled by the author

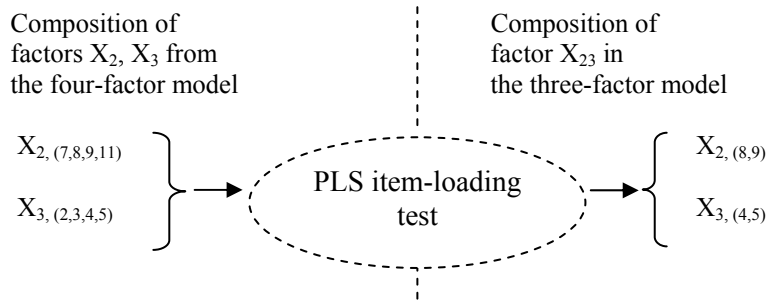
Notes: InC – internal consistency; AVE – average variance extracted; Org. – organization; SD – standard deviation

Following these procedures, the final composition of the questionnaire for measuring organizational leadership capability was made in accordance with the four-factor model (equation 13) including 22 statements altogether (6 statements in the dependent variable and 16 statements in the independent variables). The independent factors of the questionnaire include 16 statements where the factor of alignment and cohesion (X<sub>1</sub>) included 4 statements, the factor of informal communication (X<sub>2</sub>) included 4 statements, the factor of the extent of centralisation (X<sub>3</sub>) included 4 statements, and the factor of the control-feedback system (X<sub>4</sub>) included 4 statements (see appendix 1).

In order to measure organizational leadership capability using the final questionnaire, the statements in factors X<sub>2</sub> and X<sub>3</sub> have been compounded to form factor X<sub>23</sub> – the architecture of the internal network. Factor X<sub>23</sub> satisfied the three-factor model (equation 14) in accordance with the framework of organizational leadership capability (figure 8). To design the composition of factor X<sub>23</sub>, PLS tests for factor X<sub>23</sub> have been applied once more (figure 25) and this has resulted in the final questionnaire.

$$Y_i = \lambda_{1,i} X_{1,i} + \lambda_{23,i} X_{23,i} + \lambda_{4,i} X_{4,i} \quad (14)$$

Finally, to evaluate organizational leadership capability, a three-factor model (equation 14) was designed in accordance with the main parts of the measurement framework of organizational leadership capability (figure 8). Therefore, statements from factors X<sub>2</sub> (informal communication) and X<sub>3</sub> (extent of centralisation) from the final questionnaire of the four-factor model (equation 13) were united to form the factor (X<sub>23</sub>) referred to as the architecture of the internal network (figure 8). In order to design the final composition of factor X<sub>23</sub>, eight statements were united together from factors X<sub>2</sub> and X<sub>3</sub> and examined using the PLS item-loading test again on several occasions with different combinations of statements. The best combination of statements for factor X<sub>23</sub> was chosen and its PLS item-loading test values were mostly higher than 0.7 – several (6 pc.) were between 0.62 and 0.69, and a couple (3 pc.) were between 0.44 and 0.52 from all 24 items. In this combination, factor X<sub>23</sub> includes two statements from factor X<sub>2</sub> and two statements from factor X<sub>3</sub> (figure 26).



**Figure 26.** Composition design for factor  $X_{23}$  (architecture of internal network)  
Source: compiled by the author

The composition of factor  $X_{23}$  for composite reliability was examined using the InC test, and for discriminant validity using the square root AVE test. The results of these tests for the six organizational samples are summarized in table 15. One sample (organization with  $n=45$ ) out of six shows critical values, but the remaining sample test values comply with the level of reliability and validity demanded (table 15).

**Table 15.** Test results for factor  $X_{23}$  (architecture of internal network)

Indicator	Org. $n=45$	Org. $n=111$	Org. $n=73$	Org. $n=82$	Org. $n=109$	Org. $n=25$
Average	4.78	4.39	5.50	4.96	4.56	5.50
SD	1.48	1.48	1.34	1.58	1.54	1.07
InC	0.77	0.84	0.83	0.83	0.82	0.78
root AVE	0.68*	0.76	0.74	0.74	0.73	0.70

Source: compiled by the author

Notes: InC – internal consistency; AVE – average variance extracted; \* – benchmark is 0.7.

Having passed through all the tests in the process of developing the questionnaire of Organizational Leadership Capability, we designed the final version of the questionnaire using 22 statements, altogether divided into independent factors with 16 statements and a dependent factor with 6 statements. All tests in this study confirmed the reliability of the individual statements, the composite reliability of the factors and the validity of the composition of the questionnaire. The final design of the questionnaire satisfied both the three-factor (equation 14) and four-factor model (equation 13). This allows us to evaluate organizational leadership capability using the three-factor model (equation 14), and two important dimensions of the architecture of the internal network using the four-factor model (equation 13). The final questionnaire is presented in appendix 1.



### **2.3. Evaluating the capability of organizational leadership**

This study of the evaluation of the capability of organizational leadership and identifying the pattern of the factors of organizational leadership is based on the concept of triangulation. According to Flick (2004), the method of triangulation includes both data as well as methodological triangulation, which is used in the current evaluation of the measurement tool for organizational leadership capability. Organizations from the financial services sector in Estonia were chosen because of the different types of expertise and skills in use at the organizational level in these businesses. However, the number of organizations is small in this sector and the Estonian market itself is also small. Therefore, the results of the study provide examples that are only valid in the Estonian context.

The data triangulation includes two types of data: aggregated and non-aggregated assessments of individuals, and aggregated objective data. Assessments of individuals include an estimation of organizational leadership capability factors such as alignment and cohesion, the architecture of the internal network, the control-feedback system and organizational performance. The aggregated data represents separate organizations and distinguishes between the assessment of individuals and objective data. Individuals' assessments of the main factors of organizational leadership capability, such as alignment and cohesion, the architecture of the internal network and the control-feedback system, were aggregated in accordance with the organizations in the sample. Financial performance indicators that directly express the financial success of the organizations, such as traditional financial performance indicators (return on assets – ROA, return on sales – ROS) as well as financial performance indicators that denote intellectual capital (value added intellectual capital coefficient – VAIC, value added human capital coefficient – VAHU and value added structural capital coefficient – STVA), were used as objective aggregated data. These indicators evaluate the value creation efficiency of the internal resources of the organization, and therefore, the indicators of different organizations are comparable in spite of the fact that the organizations vary in size. However, these indicators could be influenced differently due to the nature of different businesses and the conditions in different industries. In order to eliminate this research limitation the current investigation has been carried out in one service industry.

To this end the study was carried out in eight organizations from the Estonian financial services sector: the five largest banks (covering ~ 95 % of market in 2007–2008), the largest leasing organization (covering ~ 50 % of market in 2007–2008) and the two largest insurance companies (covering ~50 % of market in 2007 – 2008). To estimate organizational leadership capability, data were collected using the developed questionnaire for measuring the capability of organizational leadership with a total sample of  $n=555$ , which can be broken down as follows: the banks ( $n_1=73$ ,  $n_2=111$ ,  $n_3=58$ ,  $n_4=40$ ,  $n_5=60$ ), the leasing organization ( $n_6=120$ ) and the insurance companies ( $n_7=40$ ,  $n_8=53$ ). These data

were collected in period from 2006 to 2008. Aggregated financial performance indicators (ROA, ROS, VAIC, VAHU, and STVA) for these financial service organizations were calculated using their annual reports for 2004–2007<sup>7</sup>, which were available.

In the Questionnaire of Organizational Leadership Capability, uses closed-ended statements with a seven-point scale (strongly disagree to strongly agree) as suggested by Osgood, Suci and Tannebaum (1957). The three main factors of organizational leadership capability – alignment and cohesion, the architecture of the internal network and the control-feedback system – include 4 statements for each factor, and 6 statements for the factor of organizational performance. The composite reliability of the factors was tested using Cronbach’s alpha with a value of 0.7 as a benchmark (Nunnally, 1978:245 and Hulland, 1999). Cronbach’s alpha test is sensitive to the length of the test. From this point of view, Nunnally and Bernstein (1994) highlight that individual items may correlate poorly with true scores – a 10-item test might correlate at 0.50 with true scores while a 100-item test might correlate at 0.90 with true scores. It is the same for observations as well. Each factor of the measurement tool was tested using Cronbach’s alpha test to estimate its composite reliability. Table 16 summarizes the indicators of Cronbach’s alpha for all factors with a value greater than 0.83. According to Bontis (2002), a Cronbach’s alpha value of 0.85 and greater indicates excellent internal reliability of the construct.

**Table 16.** Cronbach’s  $\alpha$  values for each factor (n = 555)

Factor	Cronbach’s $\alpha$
Alignment and cohesion (4 statements)	0.83
Architecture of internal network (4 statements)	0.83
Control-feedback system (4 statements)	0.89
Organizational performance (6 statements)	0.93

Source: compiled by the author

The method of triangulation combines two methods for testing hypotheses (H.1, and H.2): quantitative Ordinary Least Squares (OLS) regression analysis of the assessments of individuals, and ranking mean values of organizations aggregated assessments of individuals and objective data of organizations into quartiles. This allows us to verify the pattern of organizational leadership factors that denotes the strength of organizational leadership capability.

<sup>7</sup> From 2004, organizations in the finance sector came under the international finance statement standard of the IFRS, therefore data from previous periods are not comparable.

To estimate the strength of individual factors of organizational leadership and the strength between them, a correlation analysis and OLS regression analysis were performed. The OLS regression estimates the strength of individual factors according to equation 15, where alignment and cohesion has marked by  $X_1$ , the architecture of the internal network  $X_{23}$ , the control-feedback system by  $X_4$ , and individuals' assessments of organizational performance by  $Y$ .

$$Y = \beta_0 + \beta_1 X_1 + \beta_{23} X_{23} + \beta_4 X_4 \quad (15)$$

The correlation between the main factors is presented in table 17. The strong correlation between the architecture of the internal network and the control-feedback system ( $r=0.75$ ) is quite understandable because both these factors are parts of the same dimension of organizational leadership capability – organizational adaptation (figure 8 in subchapter 1.2).

**Table 17.** Correlation analysis between factors of organizational leadership capability (n = 555)

Factor	Alignment and cohesion	Architecture of internal network	Control-feedback system
Alignment and cohesion	1		
Architecture of internal network	0.66 (p=0.000)	1	
Control-feedback system	0.67 (p=0.000)	0.75 (p=0.000)	1
Organizational performance	0.70 (p=0.000)	0.68 (p=0.000)	0.80 (p=0.000)

Source: compiled by the author

Correlation between pairs of factors from different dimensions of organizational leadership capability – organizational orientation and organizational adaptation (figure 8) – is moderate (lower than the correlation between the factors of the same dimension). However, correlations between alignment and cohesion and the architecture of the internal network ( $r=0.66$ ), and between alignment and cohesion and the control-feedback system ( $r=0.67$ ) are relatively high.

Table 18 summarizes the results of the regression analysis in accordance with equation 15, where it appears that organizational leadership factors describe 69% of individuals' assessments of organizational performance at the significant level (F:  $p<0.001$ ). Regression parameters ( $\beta$ ), which focus on the strength of organizational leadership factors, indicate the positive impact of all organizational leadership factors on individuals' assessments of organizational performance. The “control-feedback system” has the greatest value ( $\beta=0.45$ ; t:  $p<0.001$ ), while the “architecture of the internal network” has the lowest ( $\beta=0.09$ ; t:  $p=0.011$ ). Both these factors represent organizational adaptability when organizational orientation, which is represented by the factor “alignment

and cohesion”, has a moderate value ( $\beta=0.28$ ;  $t: p<0.001$ ). In spite of these results, the correlations between “alignment and cohesion” and the “architecture of the internal network”, and “alignment and cohesion” and the “control-feedback system” have relatively high values (table 17) indicating the possibility of multicollinearity in the model (equation 15). Therefore, is important to use the interactions between factors that have been defined in subchapter 1.2 for evaluating the capability of organizational leadership.

**Table 18.** Results of the regression analyses of the main factors of organizational leadership capability (n = 555)

Indicator	$\beta$	Std. Error	t-test value	p value
Constant	1.50	0.13	11.96	0.000
Alignment and cohesion	0.28	0.03	8.10	0.000
Architecture of internal network	0.09	0.03	2.57	0.011
Control-feedback system	0.45	0.03	14.12	0.000
Multiple R	0.83			
R Square	0.69			
F test value	406.19			0.000

Source: compiled by the author

The interactions between the factors of organizational leadership capability were evaluated using two regression models (equations 16 and 17) in terms of the strength of organizational leadership capability. Equation 16 estimates the pattern of interactions without taking account of the direct influence of organizational leadership factors on individuals’ assessments of organizational performance, and equation 17 estimates this along with the direct influence represented by organizational leadership factor  $X_1$  (alignment and cohesion), which participates in both interactions defined in subchapter 1.2.

$$Y = \beta_0 + \beta_1 X_1/X_{23} + \beta_2 X_1/X_4 \quad (16)$$

$$Y = \beta_0 + \beta_1 X_1/X_{23} + \beta_2 X_1/X_4 + \beta_3 X_1 \quad (17)$$

To evaluate interactions between factors of organizational leadership capability, the ratios of factors in interactions were used. The ratio of alignment and cohesion and the architecture of the internal network ( $X_1/X_{23}$ ) were used for the interaction defined as *organizational cohesiveness*, and the ratio of alignment and cohesion and the control-feedback system ( $X_1/X_4$ ) was used for the interaction defined as the *collective ability of organizational members to explain their everyday activities within strategic objectives*. These ratios of factors mark the state wherefrom the effect of the interaction between factors arises and also, it presents a picture of how the factors influence each other. In these interactions the

influential forces between factors might be not symmetrical, and this also depends on many other important characteristics such as the distribution of internal components in the single factor and the density of the factor. There are general characteristics that are common to all systems, and specific characteristics that satisfy special systems or models. Nonlinearity of interactions between variables or components of systems is common to all systems (Sterman, 2001; Dooley and Van de Ven, 1999; Morel and Ramanujam, 1999). But the shape of the functions of interactions depends on the specific characteristics of the system variables (factors in the model of organizational leadership capability). Therefore, the ratio of factors, which determines the strength of interaction, is useful for estimating the interactions. Also, it allows us to study the embedded capability of organizational leadership as an ability of the entire organizational system described by a small number of factors interacting with each other.

Results of regression analyses (table 19) show the importance of the influence of both interactions as well as factors of organizational leadership, with satisfactory goodness of fit to both models:  $Adj.R^2=0.12$  in accordance with equation 16; and  $Adj.R^2=0.65$  in accordance with equation 17 at the level of significance (F:  $p<0.001$ ). From the results of the analyses it appears that interactions between factors of organizational leadership capability have different strengths of influence: the interaction defined as the *collective ability of organizational members to explain their everyday activities within strategic objectives* has the strongest influence ( $\beta=1.3$  with equation 16 and  $\beta=1.19$  with equation 17), while the interaction defined as *organizational cohesiveness* has a modest influence  $\beta=0.33$  (t:  $p=0.06$ ) respectively with equation 16 and  $\beta=0.29$  (t:  $p=0.011$ ) with equation 17. Also, the interaction defined as the *collective ability of organizational members to explain their everyday activities within strategic objectives* has an amplifying property towards performance, while the interaction defined as *organizational cohesiveness* only slightly changes it.

**Table 19.** Results of regression analyses of interactions between the main factors of organizational leadership capability (n=555)

Indicator	Equation 16		Equation 17	
	$\beta$	Std. Error	$\beta$	Std. Error
Constant	6.49***	0.18	3.41***	0.16
$X_1/X_{23}$	0.33*	0.18	-0.29**	0.11
$X_1/X_4$	-1.30***	0.15	-1.19***	0.10
$X_1$			0.74***	0.03
Multiple R	0.36		0.81	
Adjusted R Square	0.12		0.65	
F-test value	40.13***		343.99***	

Source: compiled by the author

Notes: \* –  $p=0.06$ ; \*\* –  $p=0.011$ ; \*\*\* –  $p=0.000$ ;  $X_1/X_{23}$  – *organizational cohesiveness*;  $X_1/X_4$  – *collective ability of organizational members to explain their everyday activities within strategic objectives*;  $X_1$  – *alignment & cohesion*

The interaction defined as the *collective ability of organizational members to explain their everyday activities within strategic objectives* ( $X_1/X_4$ ) has the same mark “-” in both regression models (table 19), which implies an asymmetrical force of influence for at least one factor in this interaction. This is obvious because this interaction represents system regulation via double loop feedback. Also, this type of feedback loop is non-linear by nature (Jackson, 2007:119; Capra, 1996:123). The regression analysis (table 19) indicates the pattern of factors ( $X_1 < X_4$ ) for this regulative interaction – expected performance will be higher when the ratio of factors ( $X_1/X_4$ ) is smaller.

The other interaction defined as *organizational cohesiveness* ( $X_1/X_{23}$ ) changes the mark “+” in the model in equation 16 to “-” in the model in equation 17 (table 19). This implies a more symmetrical force of influence for both factors in the interaction. Also, it implies that the density of the channels between agents in the factor *the architecture of the internal network* should match the cognitive density of agents in the factor *alignment and cohesion* in order to increase the cohesiveness of the organization. However, cohesiveness is a complicated phenomenon. Langfred (1998) shows that more cohesive groups could be more productive as well as less productive. Mathieu, Heffner, Goodwin, Salas and Cannon-Bowers (2000) have shown that team shared mental models and team processes together are related to performance, while shared mental models are related to team processes separately as well. From here it appears that the value of *the architecture of the internal network* should increase to the value of *alignment and cohesion* even when value of *alignment and cohesion* increases at the same time. Therefore, the pattern of the factors *the architecture of the internal network* ( $X_{23}$ ) and *alignment and cohesion* ( $X_1$ ) is suggested as a proxy ( $X_1 \approx X_{23}$ ) for this interaction.

In the following, the pattern of organizational leadership factors in interactions that denotes the strength of organizational leadership capability and is acquired via the OLS regression analysis of individuals’ assessments were examined additionally by ranking the organization’s mean values into quartiles. The quartile method allows us to analyse a small in number of populations by distributing the sampled population into four groups in accordance with their values or another chosen characteristic. In the sample of eight organizations aggregated mean values were calculated for the organizational leadership capability from individuals’ assessments as well as financial performance ratios and value added intellectual capital coefficients from the annual reports of these organizations (table 20).

**Table 20.** Aggregated results of individuals' assessments about organizational leadership capability

Indicator	Org. n <sub>1</sub> =73	Org. n <sub>2</sub> =111	Org. n <sub>3</sub> =58	Org. n <sub>4</sub> =40	Org. n <sub>5</sub> =60	Org. n <sub>6</sub> =120	Org. n <sub>7</sub> =40	Org. n <sub>8</sub> =53
X <sub>1</sub>	5.70	4.53	4.14	5.12	4.49	5.38	4.19	4.95
X <sub>23</sub>	5.50	4.39	3.80	5.05	4.86	5.55	4.28	3.99
X <sub>4</sub>	5.90	4.74	3.51	5.25	4.42	5.53	3.84	4.35
X <sub>1</sub> /X <sub>4</sub>	0.97	0.96	1.18	0.98	1.02	0.97	1.09	1.14
1-X <sub>1</sub> /X <sub>23</sub>	0.04	0.03	0.09	0.01	0.08	0.03	0.02	0.24

Source: compiled by the author

Notes: X<sub>1</sub> – alignment & cohesion; X<sub>23</sub> – the architecture of the internal network; X<sub>4</sub> – control-feedback system; X<sub>1</sub>/X<sub>23</sub> – organizational cohesiveness; X<sub>1</sub>/X<sub>4</sub> – collective ability of organizational members to explain their everyday activities within strategic objectives

For financial performance indicators, the period 2006–2007 was chosen as a less solvent period for all financial performance indicators for the period 2004 to 2007<sup>8</sup>. Table 21 summarizes the means of these financial performance indicators for 2006 to 2007, and the assessments of individuals about the performance of the organization.

**Table 21.** Means of financial performance ratios and value added intellectual capital coefficients (period: 2006 – 2007), and individuals' assessments about the performance

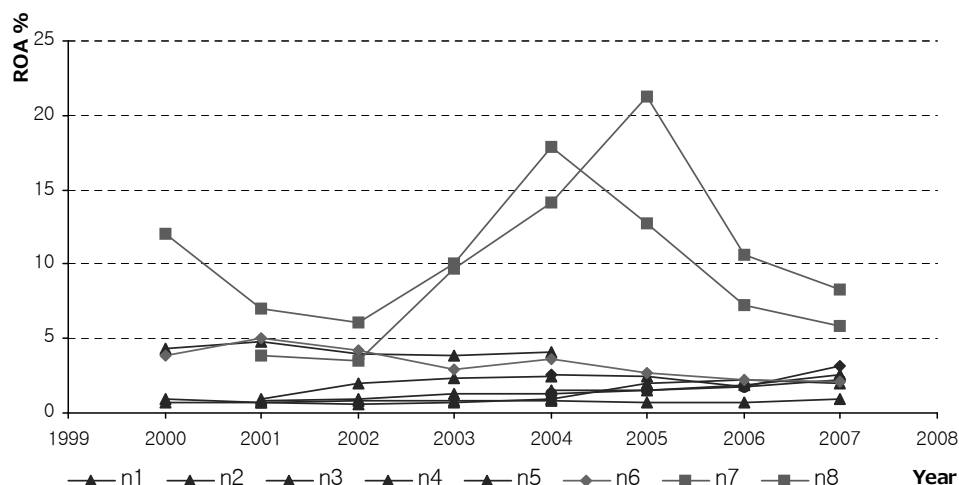
Performance indicator	Org. n <sub>1</sub> =73	Org. n <sub>2</sub> =111	Org. n <sub>3</sub> =58	Org. n <sub>4</sub> =40	Org. n <sub>5</sub> =60	Org. n <sub>6</sub> =120	Org. n <sub>7</sub> =40	Org. n <sub>8</sub> =53
Y	6.48	5.39	4.19	5.83	5.35	5.80	4.28	5.36
VAIC	5.66	5.62	3.71	4.99	4.74	7.78	3.62	2.74
STVA	0.72	0.72	0.62	0.67	0.59	0.84	0.61	0.46
VAHU	3.68	3.55	2.68	3.07	2.44	6.15	2.60	1.86
ROS	33.51	32.91	15.12	28.38	29.32	32.31	12.53	9.62
ROA	2.43	2.19	0.80	1.99	2.14	2.16	9.43	6.56

Source: compiled by the author

Notes: VAIC – value added intellectual capital coefficient; STVA – value added structural capital coefficient; VAHU – value added human capital coefficient; ROS – return on sales in %; ROA – return on assets in %; Y – individuals' assessments about the performance of an organization

<sup>8</sup> Values of financial performance indicators (ROS, VAIC, VAHU and STVA) from the period 2004 – 2007 are in the appendix 2, and ROA values are in the appendix 3.

Analysing the mean values of the financial performance indicators reveals that the mean values for ROA for two insurance companies ( $n_7=40$  and  $n_8=53$ ) have large differences in comparison to other financial service organizations (table 21). Therefore, the dynamics for ROA for 2000–2007<sup>9</sup> were analysed separately. From this analysis it appears that the dynamics for ROA with two insurance companies are different from the ROA values and ROA dynamics for the banks and the leasing organization (figure 27). This indicates the strong influence of the nature of business on the ROA value even within one single industry (financial services) – different businesses use their assets differently in the value creation process. Consequently, ROA was withdrawn from subsequent analyses.



**Figure 27.** ROA dynamics for 2000 to 2007

Source: compiled by the author

Notes:  $n_1$ ,  $n_2$ ,  $n_3$ ,  $n_4$ ,  $n_5$  – banks;  $n_6$  – leasing organization;  $n_7$ ,  $n_8$  – insurance companies

To rank the aggregated values of interactions between organizational leadership capability factors (table 20), individuals' assessments about the performance and financial performance indicators of organizations (table 21) were divided into quartiles according to the mean values for the eight organizations in the sample. This allows us to arrange the organizations into high (I quartile) to low (IV quartile) in accordance with their mean values, where quartile I corresponds to highest value and quartile IV corresponds to the lowest value. Table 22 summarize the quartiles for the interactions of organizational leadership capability, individuals' assessments about the performance of organizations and financial performance indicators (VAIC, STVA, VAHU and ROS), which allows us to estimate their levels for testing the hypotheses (H.1, and H.2).

<sup>9</sup> ROA values for 2000–2007 are in appendix 3.



**Table 22.** Quartiles of mean values of interactions between organizational leadership capability factors, individuals' assessments about performance of organizations and financial performance (8 organizations)

Indicator	I quartile	II quartile	III quartile	IV quartile
$X_1/X_4$	mean<0.98	0.98<mean<1.04	1.04<mean<1.14	mean>1.14
$ 1-X_1/X_{23} $	mean<0.03	0.03<mean<0.07	0.07<mean<0.14	mean>0.14
Y	mean>5.70	5.34<mean<5.70	4.24<mean<5.34	mean<4.24
VAIC	mean>6.01	4.86<mean<6.01	3.70<mean<4.86	mean<3.70
STVA	mean>0.74	0.65<mean<0.74	0.57<mean<0.65	mean<0.57
VAHU	mean>4.46	3.25<mean<4.46	2.53<mean<3.25	mean<2.53
ROS	mean>31.28	24.21<mean<31.28	12.42<mean<24.21	mean<12.42

Source: compiled by the author

Notes:  $X_1/X_{23}$  – organizational cohesiveness;  $X_1/X_4$  – collective ability of organizational members to explain their everyday activities within strategic objectives; Y – individuals' assessments about the performance of an organization; VAIC – value added intellectual capital coefficient; STVA – value added structural capital coefficient; VAHU – value added human capital coefficient; ROS – return on sales in %

The level of organizational leadership capability was estimated by arranging the organizations into quartiles (table 22) in accordance with the value of both interactions ( $X_1/X_{23}$  and  $X_1/X_4$ ) (table 20). In order to distinguish organizations with a high value of organizational leadership capability from those with a low value of organizational leadership capability, the quartiles of interactions ( $X_1/X_{23}$  and  $X_1/X_4$ ) were coded as follows: I quartile – “1”; II quartile – “2”; III quartile – “3”; and IV quartile – “4”. The smaller value of interactions corresponds to the higher value of organizational leadership capability and table 23 summarizes the results of this analysis.

**Table 23.** The coded mean values of organizational leadership capability interactions

Interaction n	Org. n <sub>1</sub> =73	Org. n <sub>2</sub> =111	Org. n <sub>3</sub> =58	Org. n <sub>4</sub> =40	Org. n <sub>5</sub> =60	Org. n <sub>6</sub> =120	Org. n <sub>7</sub> =40	Org. n <sub>8</sub> =53
$X_1/X_4$	1	1	4	1	2	1	3	4
$X_1/X_{23}$	2	2	3	1	3	2	1	4
<b>Sum</b>	<b>3</b>	<b>3</b>	<b>7</b>	<b>2</b>	<b>5</b>	<b>3</b>	<b>4</b>	<b>8</b>

Source: compiled by the author

Notes:  $X_1/X_{23}$  – organizational cohesiveness;  $X_1/X_4$  – collective ability of organizational members to explain their everyday activities within strategic objectives

The same ranking technique that was used to estimate the level of organizational leadership capability was applied to estimate the level of individuals' assessments of performance and the financial performance for each organization. Quartiles for each financial performance indicator were coded as follows: I quartile – “1”; II quartile – “2”; III quartile – “3”; and IV quartile – “4”. The level of performance for each organization was found by summarizing all four financial performance indicator code numbers and additionally the code number for the individuals' assessments of performance. Higher performance corresponds to a smaller value for the sum of the performance indicator code numbers (table 24).

**Table 24.** The coded mean values of organizational performance

Performance indicator	Org. n <sub>1</sub> =73	Org. n <sub>2</sub> =111	Org. n <sub>3</sub> =58	Org. n <sub>4</sub> =40	Org. n <sub>5</sub> =60	Org. n <sub>6</sub> =120	Org. n <sub>7</sub> =40	Org. n <sub>8</sub> =53
Y	1	2	4	1	2	1	3	2
VAIC	2	2	3	2	3	1	4	4
STVA	2	2	3	2	3	1	3	4
VAHU	2	2	3	3	4	1	3	4
ROS	1	1	3	2	2	1	3	4
<b>Sum</b>	<b>8</b>	<b>9</b>	<b>16</b>	<b>10</b>	<b>14</b>	<b>5</b>	<b>16</b>	<b>18</b>

Source: compiled by the author

*Notes: Y – individuals' assessments about the performance of an organization; VAIC – value added intellectual capital coefficient; STVA – value added structural capital coefficient; VAHU – value added human capital coefficient; ROS – return on sales*

The calculated levels of organizational leadership capability (table 23) and organizational financial performance (table 24) allows us to test the research hypotheses – how the levels for two separate interactions (*organizational cohesiveness* and the *collective ability of organizational members to explain their everyday activities within strategic objectives*) that form the capability of organizational leadership relate to the level of organizational performance (H.1 and H.2), and also, how the level of organizational leadership capability relates to the level of organizational performance. Organizational performance is estimated as the financial performance of an organization, and in the current research organizations were divided into “high” and “low” levels according to their performance values (tables 25, 26 and 27). Organizations with a “high” level of performance have the sum value of performance codes up to 10 (table 24), and organizations with a “low” level have the sum value of performance codes from 11 to 20 (table 24).

To test the hypotheses (H.1 and H.2), which concerns interactions of organizational leadership capability, the organizations were divided into “high” and “low” value levels according to the interaction value. Organizations with inter-

action values of “1” and “2” (table 23) correspond to the “high” level and organizations with interaction values of “3” and “4” (table 23) correspond to the “low” level.

The analysis in the table 25 brings out the interaction of organizational leadership defined as organizational cohesiveness in relation to the performance of the organization. High-level organizational cohesiveness corresponds to high levels of performance, and respectively low-level organizational cohesiveness corresponds to low levels of performance except in one organization ( $n_7=40$ ).

**Table 25.** Organizational cohesiveness in relation to the performance of organizations

Organization	The level of organizational cohesiveness	The level of organizational performance
n1=73	High	High
n2=111	High	High
n4=40	High	High
n6=120	High	High
n3=58	Low	Low
n5=60	Low	Low
n7=40	High	Low
n8=53	Low	Low

Source: compiled by the author

**In accordance with the previous analysis, hypothesis 1, which states that organizational cohesiveness has a relationship to organizational performance, has been confirmed.** The analysis proves that seven organizations out of eight (87.5% of the sample size) show a relationship between organizational cohesiveness and organizational performance (table 25). Also, t-test results of regression parameters with both models, in accordance with equation 16 ( $\beta_1 = 0.33$ ;  $t$ :  $p=0.06$ ) and equation 17 ( $\beta_1 = -0.29$ ;  $t$ :  $p=0.011$ ) (table 19) support hypothesis 1. Besides, the fact that this triangulation analysis verifies the pattern of factors in interactions defined as an organizational cohesiveness also illustrates the relationship between this interaction and organizational performance.

The next analysis explores the interaction of organizational leadership defined as the collective ability of organizational members to explain their everyday activities within strategic objectives in relation to the performance of the organization (table 26). A high collective ability of organizational members to explain their everyday activities within the strategic objectives of the organization corresponds to high performance, and respectively the low collective ability of organizational members to explain their everyday activities within strategic objectives corresponds to low performance except in one organization ( $n_5=60$ ). This could result from the characteristics of the business portfolio of this single organization ( $n_5=60$ ).

**Table 26.** Collective ability of organizational members to explain their everyday activities within the strategic objectives in relation to the performance of the organization

Organization	The level of collective ability of organizational members to explain their everyday activities within strategic objectives	The level of organizational performance
n1=73	High	High
n2=111	High	High
n4=40	High	High
n6=120	High	High
n3=58	Low	Low
n5=60	High	Low
n7=40	Low	Low
n8=53	Low	Low

Source: compiled by the author

**In accordance with the previous analysis, hypothesis 2, which states that the collective ability of organizational members to explain their everyday activities within strategic objectives exhibits a relationship with organizational performance, has been confirmed.** The analysis proves that seven organizations out of eight (87.5 % of the sample) show a relationship between the collective ability of organizational members to explain their everyday activities within strategic objectives and organizational performance (table 26). Also, t-test results of regression parameters with both models, in accordance with equation 16 ( $\beta_2 = -1.30$ ; t: p=0.000) and equation 17 ( $\beta_2 = -1.19$ ; t: p=0.000) (table 19) support hypothesis 2. Moreover, the triangulation analysis, which verifies the pattern of factors in the interaction defined as the collective ability of organizational members to explain their everyday activities within strategic objectives, illustrates this interaction relationship with organizational performance as well.

In addition, the strength of organizational leadership capability towards performance was also checked. To this end, organizations were divided into “high” and “low” organizational leadership capability by summarizing two interactions level values of organizational leadership capability (table 23). Organizations with a “high” level of organizational leadership capability have the sum of organizational leadership interaction values up to 4 (on the condition that both interactions level values are 1 or 2), and organizations with a “low” level have the sum of organizational leadership interaction values from 4 to 8 (table 23).

Table 27 summarizes the analysis of organizational leadership capability in relation to the performance of the organization. This analysis indicates that a high level of organizational leadership capability in organizations corresponds to their high performance, and respectively a low level of organizational leadership capability corresponds to low performance. The same result emerges from a regression analysis of the data from individual assessments. All regression models represented by equations 15, 16 and 17 describe organizational

performance respectively as 69%, 12%, and 65% at a significance level of  $F: p=0.000$ . This exemplifies the capability of organizational leadership in relation to organizational performance.

**Table 27.** Organizational leadership capability in relation to the performance of organizations

Organization	The level of organizational leadership capability value	The level of organizational performance
n1=73	High	High
n2=111	High	High
n4=40	High	High
n6=120	High	High
n3=58	Low	Low
n5=60	Low	Low
n7=40	Low	Low
n8=53	Low	Low

Source: compiled by the author

However, seeing that hypotheses H.1 and H.2 were supported, there are several aspects that should be addressed. First, the small sample size (8 organizations). The financial service industry in Estonia is consolidated, and therefore, there is a limited number of organizations (oligopoly market). Also, financial performance indicators are sensitive to the nature of businesses (e.g. banking, leasing and insurance) even inside a single industry. Secondly, the value of organizational leadership capability depends on both the value of its interactions and the strength of each interaction, which differ as seen from the regression analysis. Finally, organizational performance not only depends on internal management and leadership, but also the external environment and its dynamics that have been pointed out by scholars of organizational ecology (e.g. Hannan and Freeman, 1977).

## **2.4. Organizational leadership capability and its relationship with organizational effectiveness**

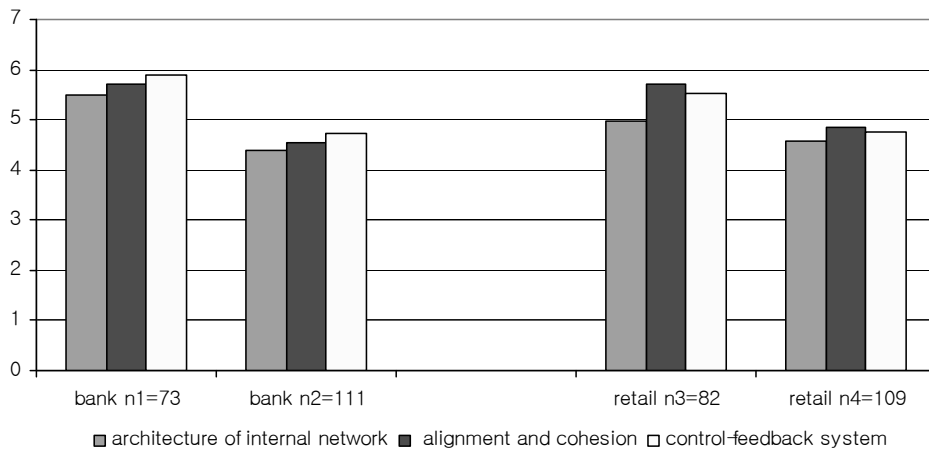
### **2.4.1. The relationship between organizational leadership capability and organizational functioning**

The aim of this subchapter is to make the preliminary investigation that could highlight some essential aspects of organizational leadership capability and its possible relationship to organizational functioning. For this purpose, the relationship of the capability of organizational leadership to organizational external behaviour in terms of industry and across industries, and organizational internal behaviour in terms of job satisfaction were estimated.

### Organizational external behaviour

Organizational external behaviour covers inter- and intra-industry aspects of organizational behaviour. External organizational behaviour in terms of intra-industry aspects has been studied within organizations from two different industries in the Estonian service sector. The sample includes the two largest and best performing organizations from banking and retail trade industries. Data was collected using the measurement tool of organizational leadership capability respectively from two banks ( $n_1=73$  and  $n_2=111$ ), and from two retail organizations ( $n_3=82$  and  $n_4=109$ ) for 2006–2007.

Figure 28 visualizes the results of organizational leadership capability according to factor means for organizations separately in two industries. This draws attention to the differences in factor patterns between banks and retail organizations. In order to be confident about this result, the significance of differences between organizational leadership capability factor means were tested using the paired-samples t-test at the significant level of  $p < 0.05$  (table 28).



**Figure 28:** Organizational leadership capability factor values for two banks and two retailers  
Source: compiled by the author

Table 28 summarizes the organizational leadership capability factor means analysis, which shows the differences between factors except the difference between the *factors alignment & cohesion* ( $X_1$ ) and *control-feedback system* ( $X_4$ ) in both retail samples ( $n_3=82$  and  $n_4=109$ ) and between the *factors alignment & cohesion* ( $X_1$ ) and *architecture of internal network* ( $X_{23}$ ) in one bank sample ( $n_2=111$ ). This result indicates the difference between the samples of banks and retail organizations.

**Table 28.** Organizational leadership capability factor means and the analysis of differences between them

Organizations	X1		X23		X4		X1 : X23 t-test (p)	X1 : X4 t-test (p)
	mean	SD	Mean	SD	Mean	SD		
n1 = 73	5.70	1.25	5.50	1.34	5.90	1.21	0.031	0.026
n2 = 111	4.53	1.52	4.39	1.48	4.74	1.55	0.076*	0.017
n3 = 82	5.70	1.31	4.96	1.58	5.54	1.37	0.000	0.067*
n4 = 109	4.86	1.39	4.56	1.54	4.77	1.48	0.002	0.359*

Source: compiled by the author

Notes: \* –  $p > 0.05$  (not significant difference between factors means);  $X_1$  – alignment and cohesion;  $X_{23}$  – architecture of internal network;  $X_4$  – control-feedback system; SD – standard deviation

Additionally, in order to find the organizational leadership capability difference between banks and retail organizations, it is necessary to use an analysis on the basis of interactions of organizational leadership capability factors. Subchapter 2.3 provided the guidelines for this, which tells us that the interaction “*the collective ability of organizational members to explain their everyday activities within the strategic objectives of an organization*” provides better performance with greater value, and the interaction “*organizational cohesiveness*” provides better performance with less value. However, the use of differences between factors ( $X_1 - X_{23}$  and  $X_4 - X_1$ ) instead of the ratios ( $X_1/X_{23}$  and  $X_1/X_4$ ) that were used in subchapter 2.3 reflects the same matter but is more convenient for this and further analyses. Table 29 highlights the difference in terms of organizational leadership capability between banks and retail organizations, where banks indicate a higher capability of organizational leadership compared to retail organizations.

**Table 29.** Comparison of organizational leadership capability between organizations belongs to banking and retail trade service industry

Interactions between factors of organizational leadership capability	Banks	Retail Organizations
Organizational Cohesiveness	$Z_1(n_2=111) = 0.00$ $Z_1(n_1=73) = 0.20$	$Z_1(n_4=109) = 0.30$ $Z_1(n_3=82) = 0.74$
Collective ability of organizational members to explain their everyday activities within the strategic objectives of an organization	$Z_2(n_2=111) > 0$ $Z_2(n_1=73) > 0$	$Z_2(n_4=109) = 0$ $Z_2(n_3=82) = 0$

Source: compiled by the author

Notes:  $Z_1$  – the value between factors alignment & cohesion and architecture of internal network;  $Z_2$  – the value between factors alignment & cohesion and control-feedback system

**In accordance with the analysis performed, proposition 1a, which states that high-skill services have higher organizational leadership capability than low-skill services is supported.** This illustrates that organizations operating in different service industries, which differ in terms of quality and complexity of services, need to build their capability of organizational leadership at a different level and capacity. This allows them to achieve success in the particular industry.

Organizational external behaviour in terms of the competitive behaviour of organizations is most important inter-industry. This competitive behaviour of organizations was studied within organizations in the banking sector in Estonia. The sample with the five largest banks covers approximately 97% of the market in the banking sector. Data was collected using the measurement tool of organizational leadership capability respectively  $n_1=73$ ,  $n_2=111$ ,  $n_3=58$ ,  $n_4=40$  and  $n_5=60$  for 2006–2008. The financial statements from the annual reports for these organizations for 2005–2007 were also used.

The organizational leadership capability factor (alignment and cohesion, architecture of internal network and the control-feedback system) means for the five banks are summarized in table 30. In order to determine the pattern of organizational leadership capability, the significance of differences between the means of factors were tested using the paired-samples t-test at the significant level of  $p < 0.05$ . Table 30 summarizes this pattern of organizational leadership capability, which for the organizations in the sample is  $n_1=73$ ,  $n_2=111$   $X_1 < X_4$ , for  $n_3=58$   $X_1 > X_4$ , for  $n_4=40$ ,  $n_5=60$   $X_1 = X_4$ , and for  $n_2=111$ ,  $n_4=40$   $X_1 = X_{23}$ , for  $n_1=73$ ,  $n_3=58$ ,  $n_5=60$   $X_1 \neq X_{23}$ .

**Table 30.** The means of organizational leadership capability factors and differences between them

Banks	X1		X23		X4		X1 : X23 t-test (p)	X1 : X4 t-test (p)
	mean	SD	mean	SD	Mean	SD		
$n_1 = 73$	5.70	1.25	5.50	1.34	5.90	1.21	0.031	0.026
$n_2 = 111$	4.53	1.52	4.39	1.48	4.74	1.55	0.076*	0.017
$n_3 = 58$	4.14	1.51	3.80	1.65	3.51	1.67	0.021	0.000
$n_4 = 40$	5.12	1.52	5.05	1.70	5.25	1.65	0.654*	0.311*
$n_5 = 60$	4.49	1.38	4.82	1.60	4.42	1.58	0.015	0.644*

Source: compiled by the author

Notes: \* –  $p > 0.05$  (not significant difference between factors means);  $X_1$  – alignment and cohesion;  $X_{23}$  – architecture of internal network;  $X_4$  – control-feedback system; SD – standard deviation



As demonstrated in subchapter 2.3, the capability of organizational leadership is revealed in the interactions between the factors of organizational leadership. Therefore, in table 31 these interactions between the means of the organizational leadership factors were calculated using the differences between organizational leadership factors as described before in this subchapter. In the current investigation of these interactions, the following categories were used: a) smaller values between factors alignment and cohesion and architecture of internal network ( $Z_1$ ) are better; and b) bigger values between factors alignment and cohesion and control-feedback system ( $Z_2 = X_4 - X_1$ ) are better ( $Z_2 > 0$  – “very good”,  $Z_2 = 0$  – “good”,  $Z_2 < 0$  – “modest”). According to these categories, the organizations in table 31 were ranked and a small difference (0.01) between the values was taken as not significant (this comes from rounding errors).

**Table 31.** Ranking the five banks according to the value of interactions between the factors of organizational leadership capability

Banks	Z1	Z2	Z1 rank	Z2 rank	OLC rank
n1 = 73	0.20	0.20	3	1 or 2	2
n2 = 111	0.00*	0.21	1 or 2	1 or 2	1
n3 = 58	0.34	-0.63	4 or 5	5	5
n4 = 40	0.00*	0.00*	1 or 2	3 or 4	3
n5 = 60	0.33	0.00*	4 or 5	3 or 4	4

Source: compiled by the author

Notes: \* – *t*-test did not shown significant difference between factors means (in table 30);  $Z_1$  – the value between factors alignment & cohesion and architecture of internal network;  $Z_2$  – the value between factors alignment & cohesion and control-feedback system; OLC – organizational leadership capability

Organizational effectiveness directly indicates the competitiveness ability of organizations, which is measured in terms of the profitability between organizations inter-industry. The best profitability indicators reflect both internal (operational) and external (market orientation) organizational effectiveness at the same time. Two indicators, ROS and VAIC, fulfil this requirement. In addition, both of them have been used by evaluating the pattern of factors in interactions of organizational leadership, and their mean values were taken at the same period as in subchapter 2.3. Finally, organizations were ranked according to these values (table 32), and Spearman’s correlation coefficient between the capability of organizational leadership and ROS, and VAIC was found. Spearman’s correlation was tested using the two-trail *t*-test.

**Table 32.** Ranking the five largest banks in accordance with competitiveness using the ROS and VAIC indicators

Banks	ROS <sup>1</sup>	ROS rank	VAIC <sup>1</sup>	VAIC rank
n1 = 73	0.34	1	5.66	1
n2 = 111	0.33	2	5.62	2
n3 = 58	0.15	5	3.71	5
n4 = 40	0.28	4	4.99	3
n5 = 60	0.29	3	4.74	4

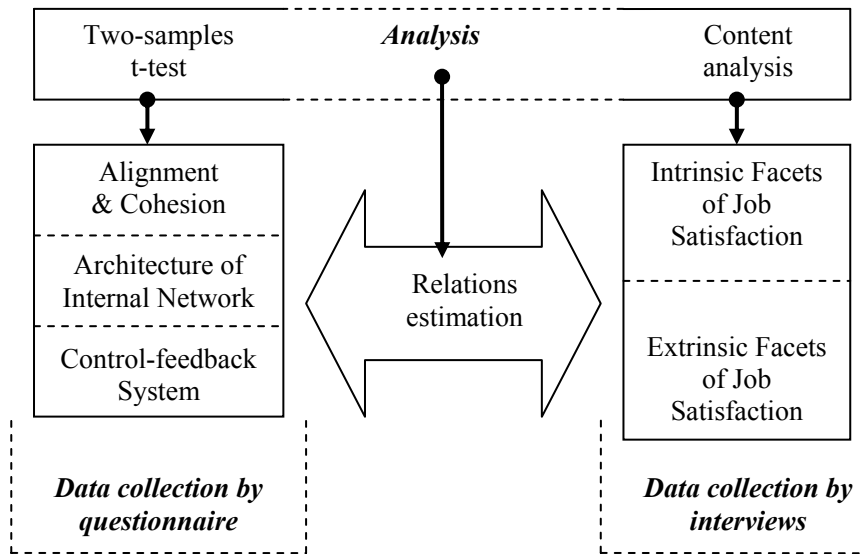
Source: compiled by the author

Notes: <sup>1</sup> – period 2006 – 2007 (mean); ROS – return on sales; VAIC – value added intellectual capital coefficient

The results of Spearman's correlation between the capability of organizational leadership and ROS ( $\rho = 0.8$ ,  $p = 0.104$ ), and VAIC ( $\rho = 0.9$ ,  $p = 0.037$ ) indicates significant correlations in spite of the small sample. However, these correlation values do not show the strength of the correlation because the sample size is too small – five organizations. Most important is the value of their significance, which stresses the relationship between the competitiveness ability of the organizations and their organizational leadership capability. **Therefore, based on these findings, proposition 1b is supported and states that organizations with higher competitive behaviour have higher organizational leadership capability than organizations with lower competitive behaviour.** This exemplifies that competitively behaving organizations, which covers both internal and external aspects of behaviour, is related to the capability of the organization's leadership.

#### *Internal organizational behaviour*

Internal organizational behaviours in terms of the relationship between job satisfaction and organizational leadership capability is studied on a small scale (18 employees) leading an IT company in the field of computer network solution development and services in Estonia. The study was conducted by combining the quantitative analysis of the capability of organizational leadership and the qualitative estimation of job satisfaction among the employees. Data collection and analyses were carried out according to the study framework (figure 29) during 2009. Also, all employees (100%) participated in the data collection using the questionnaire for estimating organizational leadership capability and interviews for estimating job satisfaction.



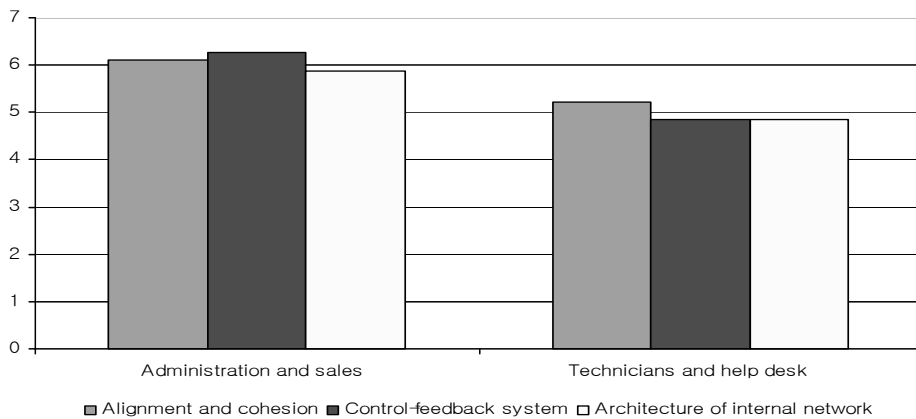
**Figure 29.** Measurement frame for analysing job satisfaction with organizational leadership capability  
Source: compiled by the author

Organizational leadership capability was measured using the developed questionnaire, which consisted of closed-ended questions with seven-point scales (strongly disagree to strongly agree). Employees were asked to fill in the questionnaire, and for the analyses they were divided into two groups (administration and sales, and technicians and help desk).

Job satisfaction interview questions based on job satisfaction facets in accordance with figure 15 (in subchapter 1.3) were developed for the in-depth interviews. These open-ended semi-structured interview questions could be divided into three groups. The first group concentrates on the period when the employee was entering the organization – motivation to join the company, initial impression of the work and climate of the organization, the need to acquire the right behaviour to be member of the organization etc. The second group concentrates on the job and climate in the organization – job aspects (job itself, personal development and achievements, conditions etc.), collective aspects (cooperation, support from colleagues etc.). The third group concentrates on management and leadership – organizational development, channels, changes etc.

Data about organizational leadership capability factors were measured separately in two groups: administration and sales ( $n = 7$ ), and technicians and help desk ( $n = 11$ ). In order to test the homogeneity between these two groups, a t-test was applied for each statement of the questionnaire at the level  $p \leq 0.05$ . This resulted in differences of 8 statements from the total of all 16-questionnaire statements, which confirms differences between the two groups: administration and sales; and technicians and help desk.

Additionally, the means of organizational leadership capability factors between these two groups were tested using two sample t-tests. Figure 30 visualize the means of the values of factors of organizational leadership capability between these two groups, and table 33 summarizes the results of the values of organizational leadership factors with t-test values ( $p < 0.05$ ), which confirms the differences between the two groups (administration and sales; technicians and help desk) across organizational leadership capability factors. Comparing the results of these two groups brings out two important findings: 1) the administration and sales group is more homogeneous than the group of technicians and help desk employees (values of standard deviation in table 33); 2) the values of organizational leadership capability are higher in the administration and sales group, and lower in the technicians and help desk group.



**Figure 30.** Mean values of organizational leadership capability factor groups administration and sales, and technicians and help desk  
Source: compiled by the author

**Table 33.** Mean values and standard deviations for organizational leadership capability factors between the two groups with t-test mean values for the IT organization

Indicators (mean and SD)	Administration and sales (SD)	Technicians and help desk (SD)	t-test (p value)
Alignment and cohesion	<b>6.11</b> (1.13)	<b>5.21</b> (1.57)	0.007
Architecture of internal network	<b>5.86</b> (1.08)	<b>4.86</b> (1.37)	0.001
Control-feedback system	<b>6.26</b> (0.66)	<b>4.86</b> (1.32)	0.000

Source: compiled by the author

Note: SD – standard deviation

In regard to job satisfaction, the results of the interviews also showed a difference between functional work groups. In particular the technicians' understandings, followed by the help desk employees, stood out for emphasizing

*intrinsic* facets, particularly the *job itself*. For example, in answering the question – “Why do you value working for this company?” – all technicians first highlighted the possibilities for high-level professional development, knowledge sharing and learning. Employees on the help desk valued the company’s reputation, learning different skills and being surrounded by clever people.

*Achievement* as the second intrinsic factor was not expressed via praise, but rather through the value technicians created for the customers when satisfying their high-level IT security service needs. Variety of work due to different projects and a certain freedom in developing complex and up-to-date technological solutions for customers was considered a major driving force, and *recognition* was also mentioned by technicians and the help desk group. Also, the company’s high reputation, access to the latest IT knowledge and equipment was mentioned as influencing factors for well being at work. Findings from the interviews confirm the statement that the intelligence of a person is positively related to desired job complexity (more intelligent people desire more complex work) and this positively influences the job satisfaction of an employee (Ganzach, 1998).

People working in administration and sales answered the same question by stressing *social climate*; for example, informal relations, ease of communication and good manager-supervisor relationships. This reflects *extrinsic* factors being more dominant in their job satisfaction. The opportunity to work with intelligent people and receive good pay was also mentioned as pleasant factors. The latter also belongs to the category of extrinsic factors.

The representatives of all functions considered modern and comfortable *working conditions* a positive factor influencing their motivation; however, technicians and help desk employees seemed to think of their good surroundings as something obvious, but not important to mention specially. Employees in sales and administration were much more eager to express satisfaction with the physical working environment, which again reflects the stronger presence of *extrinsic* factors among this group.

The question that focused on the last category of extrinsic factors aimed to understand interviewees’ satisfaction with *supervision* and management style. It was also answered slightly differently across functions. People from sales and administration appreciated the manager’s openness, fairness, availability and inspiring nature. Technicians and help desk employees emphasized the flat structure, vision sharing, good sense of humour and open communication. From the interviews it appears that the technicians’ views about supervision were more related to leadership at the individual level: the interaction between leader and follower. At the same time, sales and administration’s view of supervision was more on an overall collective-organizational level. In addition, sales and administration were positive about supervision, technicians and help desk people also expressed critical views either on how they prefer to be supervised or how managers should treat people. The following quotes from the interviews illustrate these points: “More attention should be paid to people’s stress and problems instead of making a face as if they are not there”. Among technicians

there was a view that: “Skills give power and develop hierarchies in our organization. The more knowledgeable you are the more authority you have”. In the authors’ opinion the technicians clearly realized their value to the company and felt free to criticise the management style; however, they did not emphasize the manager’s role in their emotional well being at work.

Table 34 provides a general summary of the results of the interviews of the two groups, which were analysed together with the results of organizational leadership capability (table 33) for testing propositions P.2a and P.2b.

**Table 34.** Results of interviews with two groups in an IT organization

Groups and Indicators	Administration and sales	Technicians and help desk
Job itself	—	X
Achievement	—	X
Recognition	—	X
Working conditions	X	X
Social climate	X	—
Supervision	X	—

Source: compiled by the author

Notes: “X” – strong; “—” – modest or lower

Altogether the results of the interviews showed that *intrinsic* facets of job satisfaction were more strongly represented in the technicians and help desk group (T&H) than in administration and sales (A&S) – intrinsic job satisfaction ( $T\&H > A\&S$ ). However, the results using the measurement tool for organizational leadership capability showed the opposite distinction between these groups ( $T\&H < A\&S$ ). **Therefore, based on this survey, proposition 2a is not supported, which means that intrinsic facets of job satisfaction do not reflect the capability of organizational leadership.**

In regard to *extrinsic* facets, it turned out that the facet *working conditions* was considered almost equally important by both groups. However, the other two facets *social climate* and *supervision* were expressed differently by each group. Administration and sales placed more emphasis on *social climate* and *supervision* – extrinsic job satisfaction ( $T\&H < A\&S$ ). Also, the capability of organizational leadership reflected higher values in administration and sales compared to technicians and help desk ( $T\&H < A\&S$ ). **Thus, proposition 2b, which specifies that groups in an organization with higher extrinsic job satisfaction of employees have higher organizational leadership capability than groups with lower extrinsic job satisfaction of employees, is supported.**

This analysis indicates that the extrinsic job satisfaction of employees reflects organizational leadership capability, while intrinsic job satisfaction does not reflect this. The reason for this arises from the phenomenon of organiza-

tional leadership capability itself. Organizational leadership capability is expressed via the organizational domain of organizational behaviour and not the individual domain. Also, extrinsic facets of job satisfaction such as *working conditions*, *supervision* and *social climate* concerns organizational qualities of the job more, and intrinsic facets of job satisfaction (*job itself*, *achievement*, *recognition*) concern individual level qualities of the job.

#### 2.4.2 The relationship between organizational leadership capability and organizational performance

This subchapter presents the exploratory study of the initial relationship between organizational leadership capability and organizational performance. This relationship has been investigated in accordance with both types of organizational leadership performance indicators – financial performance indicators and non-financial performance indicators.

##### *Organizational performance measured using financial performance indicators*

This part of the study uses the sample of eight organizations from the financial service sector with a total sample size of  $n=555$  as in subchapter 2.3. To estimate the relationship between the capability of organizational leadership and financial performance, a quartile method that ranked the mean values of the organizations aggregated assessments of individuals and financial performance indicators of organizations were used. The mean values of financial performance indicators were taken in the same period (2006–2007) as in subchapter 2.3, and in accordance with the quartile method, propositions P.3a, P.3b and P.3c were tested in this subchapter.

Firstly, to estimate the relationship between organizational leadership capability and financial performance in terms of the organization and its effectiveness, growth in sales and profit growth were used. The mean values for growth in sales and profit growth were calculated in table 35.

**Table 35.** Mean values for change in sales and profit for organizations (period: 2006–2007)

Financial indicator	Org. $n_1=73$	Org. $n_2=111$	Org. $n_3=58$	Org. $n_4=40$	Org. $n_5=60$	Org. $n_6=120$	Org. $n_7=40$	Org. $n_8=53$
$TS_t/TS_{t-n}$	1.42	1.55	1.64	1.68	1.39	1.19	1.08	1.06
$\Pi_t/\Pi_{t-n}$	1.61	1.76	1.42	1.92	1.32	1.02	0.77	0.82

Source: compiled by the author

Notes:  $TS_t/TS_{t-n}$  – change in the total sales;  $\Pi_t/\Pi_{t-n}$  – change in the profit

To rank the organizations according to their mean values for financial performance indicators (table 35), intervals for the quartiles were calculated. This allows us to divide the organizations into quartiles from a high mean value (I quartile) to a low mean value (IV quartile) for financial performance indicators. Table 36 summarizes the intervals of quartiles for estimating the level of an organization's financial performance in terms of change in sales and profit, allowing us to test proposition P.3a.

**Table 36.** Quartiles of mean values for change in sales and profit for eight organizations

Indicator	I quartile	II quartile	III quartile	IV quartile
$TS_t/TS_{t-n}$	mean>1.54	1.54<mean<1.38	1.38<mean<1.11	mean<1.11
$\Pi_t/\Pi_{t-n}$	mean>1.68	1.68<mean<1.33	1.33<mean<0.98	mean<0.98

Source: compiled by the author

Notes:  $TS_t/TS_{t-n}$  – change in the total sales;  $\Pi_t/\Pi_{t-n}$  – change in the profit

The financial performance of organizations was estimated using the same ranking technique as for estimating the level of organizational leadership capability in subchapter 2.3. Quartiles for both financial performance indicators were coded as follows: I quartile – “1”; II quartile – “2”; III quartile – “3”; and IV quartile – “4”. Table 37 summarizes the results of this analysis where higher performance corresponds to the smaller code number.

**Table 37.** The performance of organizations in accordance with mean values

Financial indicator	Org. n <sub>1</sub> =73	Org. n <sub>2</sub> =111	Org. n <sub>3</sub> =58	Org. n <sub>4</sub> =40	Org. n <sub>5</sub> =60	Org. n <sub>6</sub> =120	Org. n <sub>7</sub> =40	Org. n <sub>8</sub> =53
$TS_t/TS_{t-n}$	2	1	1	1	2	3	4	4
$\Pi_t/\Pi_{t-n}$	2	1	2	1	3	3	4	4

Source: compiled by the author

Notes:  $TS_t/TS_{t-n}$  – change in the total sales;  $\Pi_t/\Pi_{t-n}$  – change in the profit

To test proposition P.3a, which concerns internal organizational efficiency (profit) and external sales growth, organizations were divided into “high” and “low” values according to the level of growth in sales, growth in profit and organizational leadership capability (table 38). Organizations with growth in sales and growth in profit values of “1” and “2” (table 37) correspond to the “high” level and organizations with interaction values “3” and “4” (table 37) correspond to the “low” level. For the level of organizational leadership capability, the results from table 23 in subchapter 2.3 were used. Organizations with a “high” level of organizational leadership capability have the sum of organizational leadership



interaction values up to 4 (on the condition that both interaction level values are 1 or 2), and organizations with a “low” level have the sum of organizational leadership interaction values from 4 to 8 (table 23 in subchapter 2.3).

**Table 38.** Organizational leadership capability in relation to internal organizational efficiency (profit) and external sales growth

Organization	The level of growth in sales	The level of growth in profit	The level of organizational leadership capability value
n1=73	High	High	High
n2=111	High	High	High
n4=40	High	High	High
n6=120	Low	Low	High
n3=58	High	High	Low
n5=60	High	Low	Low
n7=40	Low	Low	Low
n8=53	Low	Low	Low

Source: compiled by the author

The analysis in table 38 indicates organizational leadership capability in relation to external sales growth and internal efficiency of organizations measured using change in profit. On the whole, the high level of organizational leadership capability in organizations corresponds to their high level of growth in sales and growth in profit (respectively the same is true for the low levels); however, there are variances with growth in profit in two organizations ( $n_3=58$  and  $n_6=120$ ) and with growth in sales in three organizations ( $n_3=58$ ,  $n_5=60$ , and  $n_6=120$ ). This presents a large difference in the results for organizational leadership capability in relation to two financial performance indicators – 25% is at variance with growth in profit, and 37.5% with growth in sales. **From this it emerges that proposition 3a, which states that organizational leadership capability has a relationship with internal organizational efficiency (or profit) and external sales growth, is not supported.**

Secondly, the relationship between organizational leadership capability and financial performance in terms of organizational profitability was estimated using the profit ratio return on sales (ROS). For this estimation, the data calculated for organizational leadership capability and ROS in subchapter 2.3 were used – the ROS results from table 24 and the results for organizational leadership capability from table 23. To test proposition P.3b, table 39 was formulated according to these results, where ROS values “1” and “2” correspond to “high” and values “3” and “4” to “low” ROS levels, and organizational leadership capability values from “1” up to “4” correspond to “high” and values from “5” to “8” to “low” levels of organizational leadership capability.

**Table 39.** Organizational leadership capability in relation to return on sales

Organization	The level of return on sales	The level of organizational leadership capability value
n1=73	High	High
n2=111	High	High
n4=40	High	High
n6=120	High	High
n3=58	Low	Low
n5=60	High	Low
n7=40	Low	Low
n8=53	Low	Low

Source: compiled by the author

The analysis in table 39 indicates organizational leadership capability in relation to organizational profitability measured using the profit ratio ROS. High levels of organizational leadership capability in organizations corresponds to high performance measured using ROS, and respectively low levels of organizational leadership capability corresponds to low ROS except in one organization ( $n_5=60$ ). This proves that seven organizations out of eight (87.5% of the sample size) exhibit a relationship between organizational leadership capability and ROS (table 39). The financial performance indicator “return on assets” (ROA) is not used in this analysis because as shown in subchapter 2.3 it is too sensitive to the nature of business even within one single industry – banking, leasing and insurance in finance services. **Therefore, proposition 3b, which states that organizational leadership capability exhibits a relationship with organizational profitability measured in terms of the profit ratios ROS and ROA, is only partly supported.** This is due to the sensitivity of ROA, which is not a suitable indicator for estimating performance across organizations in the broad sector of financial services. However, this illustrates the capability of organizational leadership in relation to organizational performance measured using the profit ratio ROS.

Finally, the relationship between organizational leadership capability and financial performance in terms of value added by intellectual capital was estimated using the coefficients of intellectual capital VAIC, VAHU and STVA. For this estimation data calculated for organizational leadership capability, the value added intellectual capital coefficient (VAIC), the value added human capital coefficient (VAHU), and the value added structural capital coefficient (STVA) in subchapter 2.3 were used – the results of VAIC, VAHU and STVA from table 24 and the results of organizational leadership capability from table 23. To test proposition P.3c, table 40 was formulated according to these results, where VAIC, VAHU and STVA values “1” and “2” correspond to a “high” and values “3” and “4” to a “low” level of VAIC, VAHU and STVA. As with propositions P.3a and P.3b, the organizational leadership capability values from “1” to “4” correspond to a “high” and values from “5” to “8” to a “low” level of organizational leadership capability.

**Table 40.** Organizational leadership capability in relation to intellectual capital according to three different coefficients of intellectual capital

Organization	The level of value added intellectual capital coefficient	The level of value added structural capital coefficient	The level of value added human capital coefficient	The level of organizational leadership capability value
n1=73	High	High	High	High
n2=111	High	High	High	High
n4=40	High	High	Low	High
n6=120	High	High	High	High
n3=58	Low	Low	Low	Low
n5=60	Low	Low	Low	Low
n7=40	Low	Low	Low	Low
n8=53	Low	Low	Low	Low

Source: compiled by the author

Table 40 summarizes the analysis of organizational leadership capability in relation to the intellectual capital of organizations measured using intellectual capital coefficients (VAIC, VAHU, and STVA). This analysis indicates that a high level of organizational leadership capability in organizations corresponds to their high level of intellectual capital, and respectively a low level of organizational leadership capability corresponds to a low level of intellectual capital. All levels of intellectual capital (coefficients of value added by intellectual capital and its components) have a 100% match with levels of organizational leadership capability except VAHU, where the match is 87.5%. This could be a result of the nature of human capital, which as opposed to structural capital is not embedded in the structure of an organization, but organizational leadership capability primarily measures leadership skills and knowledge that are embedded in the organization as organizational capability. **Thus, proposition 3c, which states that organizational leadership capability has a relationship to value added in terms of intellectual capital with its components in organizations, is supported.** This stresses the importance of knowledge and skills in the creation of value and increases the performance of organizations.

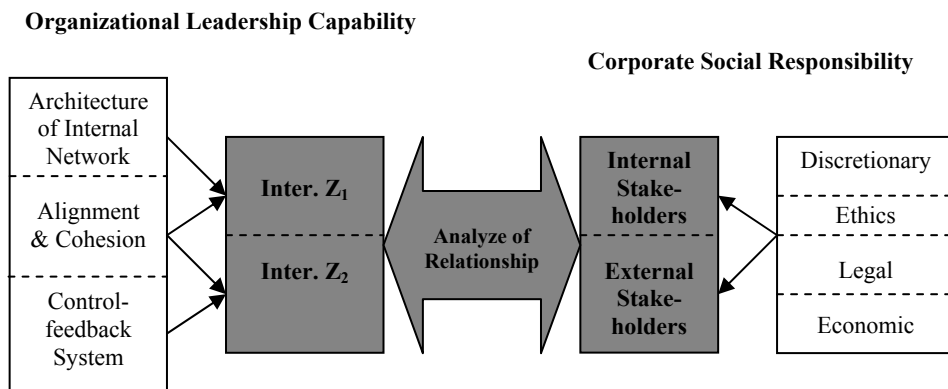
*Organizational performance measured using non-financial performance indicators*

The relationship between organizational leadership capability and organizational performance in terms of non-financial performance has been investigated using corporate social performance (CSP) indicators as outcomes of organizations. Corporate social responsibility (CSR) here focuses on two main groups of stakeholders (internal and external) on the one hand, and on the other, the

ethical behaviour of organizations focuses on the social responsiveness of organizations from the broader perspective of society.

This study was carried out in four organizations from the Estonian service sector: the two largest banks and the two largest retail organizations. In order to estimate the capability of organizational leadership, data were collected using the organizational leadership capability measurement tool (chapter 2.2) with a total sample of  $n=375$  for 2006–2007, which can be broken down as follows: the banks ( $n_1=73$ ,  $n_2=111$ ); and the retail organizations ( $n_3=82$ ,  $n_4=109$ )<sup>10</sup>.

The relationship between organizational leadership capability and CSR was analysed according to the analysis framework (figure 31). The capability of organizational leadership, which is revealed in interactions ( $Z_1$ ,  $Z_2$  in figure 31) between factors of organizational leadership, was calculated and highlighted in table 29 (subchapter 2.4.1).



**Figure 31.** Analysis framework for estimating the relationship between organizational leadership capability and corporate social responsibility

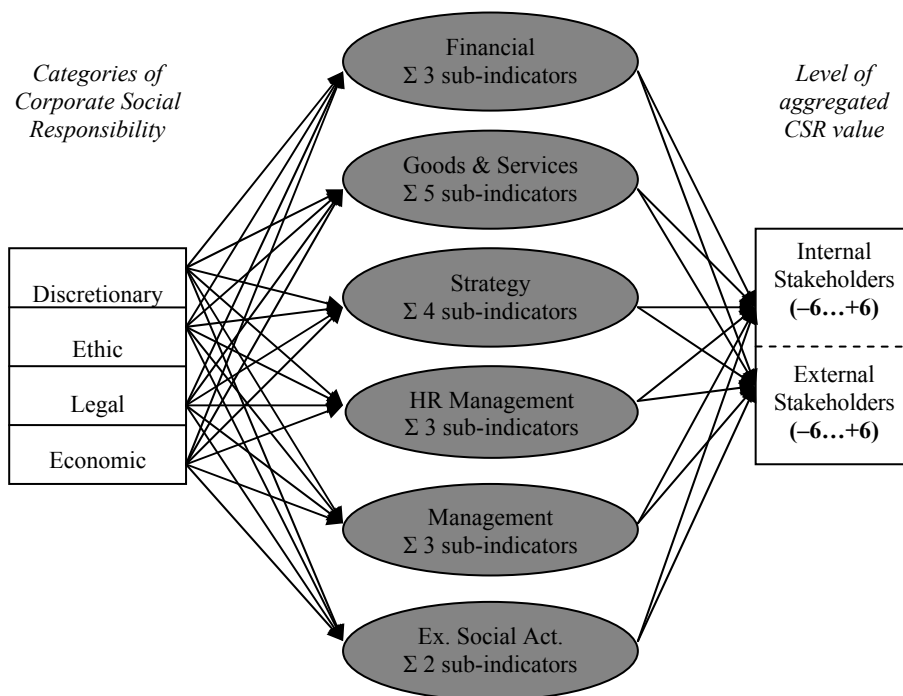
Source: compiled by the author

*Notes: Inter.  $Z_1$  – interaction “organizational cohesiveness”; Inter.  $Z_2$  – interaction “collective ability of organizational members to explain their everyday activities within the strategic objectives of an organization”*

Corporate social responsibility (CSR) was measured by analysing the internet homepages of the sample organizations in February 2008. The analysis of information from these homepages was conducted by the author and by four groups of experts made up of ten students from the Lääne-Viru School of Applied Sciences. The each group of experts has analysed one organization out of four, and the results of this analysis was presented and discussed together with three other groups under the supervision of the author.

<sup>10</sup> This part of study uses the same organizational leadership capability sample as used before for the testing proposition 1a in subchapter 2.4.1 (see also framework figure 31).

The analysis addressed CSR categories (figures 32) where six separate indicators were checked in each of four CSR categories. These indicators were: (1) financial reports with three sub-indicators; (2) goods and services with five sub-indicators; (3) strategy with four sub-indicators; (4) human resource management with three sub-indicators; (5) management with three sub-indicators; and (6) external social activities with two sub-indicators. Each indicator was estimated qualitatively and coded using the three-point scale (poor (-); fair (0); and good (+)) from the viewpoint of internal and external stakeholders separately. The aggregated value of CSR level separately to internal and external stakeholders is formed by summarizing the estimations of all six indicators in the range from -6 up to +6 (figure 32).



**Figure 32.** CSR analysis by using CSR categories with six main indicators

Source: compiled by the author

Notes: HR – Human Recourse; Ex. Social Act. – External Social Activities; CSR – Corporate Social Responsibility

To estimate the level of CSR, information that was available on the homepages of these organizations was used. The results of the six separate indicators acquired by each group of experts were summarized for each single organization, where “+” gave +1 point, “-” gave -1 point, and “0” gave 0 point.

Table 41 summarizes these results of CSR level of internal and external stakeholders' estimation.

The fact that the CSR levels for external stakeholders have the highest value compared to internal stakeholders is common for all samples (table 41). At the same time, the results of estimating the internal stakeholder CSR level differ in the two groups: banks ( $n_1=73$ ;  $n_2=111$ ) and retail organizations ( $n_3=82$ ;  $n_4=109$ ). While the banks' ( $n_1=73$ ;  $n_2=111$ ) CSR results estimated in terms of internal stakeholders are in the positive scale, retail organizations' ( $n_3=82$ ;  $n_4=109$ ) CSR results are in the negative scale (table 41). Also, the banks' ( $n_1=73$ ;  $n_2=111$ ) CSR results estimated in terms of external stakeholders are higher compared to the CSR results for retail organizations (table 41). Therefore, the results of both estimations – the CSR level in terms of internal and external stakeholders – confirm the difference between banks and retail organizations.

**Table 41.** The formation of internal and external CSR value from indicators

Indicator	Bank $n_1=73$		Bank $n_2=111$		Retail $n_3=82$		Retail $n_4=109$	
	Inter.	Exter.	Inter.	Exter.	Inter.	Exter.	Inter.	Exter.
Financial	+	+	+	+	–	–	+	+
Gds. & Srv.	0	+	0	+	–	+	0	0
Strategy	–	+	+	+	–	0	–	0
HR Mng.	+	+	+	0	–	0	–	0
Management	–	–	–	0	–	–	–	0
Ex. Scl. Act.	+	+	0	0	–	+	0	0
<b>SUMM</b>	<b>+1</b>	<b>+4</b>	<b>+2</b>	<b>+3</b>	<b>–6</b>	<b>0</b>	<b>–2</b>	<b>+1</b>

Source: compiled by the author

Notes: *Gds. & Srv.* – Goods and Services; *HR Mng.* – Human Resource Management; *Ex. Scl. Act.* – External Social Activities; *Inter.* – Internal stakeholders; *Exter.* – External stakeholders; “–” – poor (–1 point); “0” – fair (0 point); “+” – good (+1 point)

In order to examine the relationship between organizational leadership capability and the CSR values of the organizations, Spearman's correlation analysis was performed in accordance with figure 31. For this purpose, organizational leadership capability was ranked by estimating the organizational leadership factor interaction values ( $Z_1$  and  $Z_2$ )<sup>11</sup> in table 42 and the CSR values of organizations was ranked by adding together the CSR values for internal and external stakeholders for the each organization in table 43.

<sup>11</sup> See the estimation values of these interactions  $Z_1$  and  $Z_2$  for the same organizations in table 28 and 29.

**Table 42.** Ranking two banks and two retail organizations according to the value of interactions between factors of organizational leadership capability

Organization	Z1	Z2	Z1 rank	Z2 rank	OLC rank
Bank $n_1=73$	0.20	0.20	2	1 or 2	2
Bank $n_2=111$	0.00*	0.21	1	1 or 2	1
Retail $n_3=82$	0.74	0.00*	4	4	4
Retail $n_4=109$	0.30	0.00*	3	3	3

Source: compiled by the author

Notes: \* – *t*-test did not shown significant difference between factors means (in table 16); Z<sub>1</sub> – organizational cohesiveness; Z<sub>2</sub> – collective ability of organizational members to explain their everyday activities within the strategic objectives of an organization; OLC – organizational leadership capability

**Table 43.** Ranking two banks and two retail organizations in terms of OLC and CSR values

Organization	OLC rank	CSR level	CSR rank
Bank $n_1=73$	2	+ 5	1.5*
Bank $n_2=111$	1	+ 5	1.5*
Retail $n_3=82$	4	– 6	4
Retail $n_4=109$	3	– 1	3

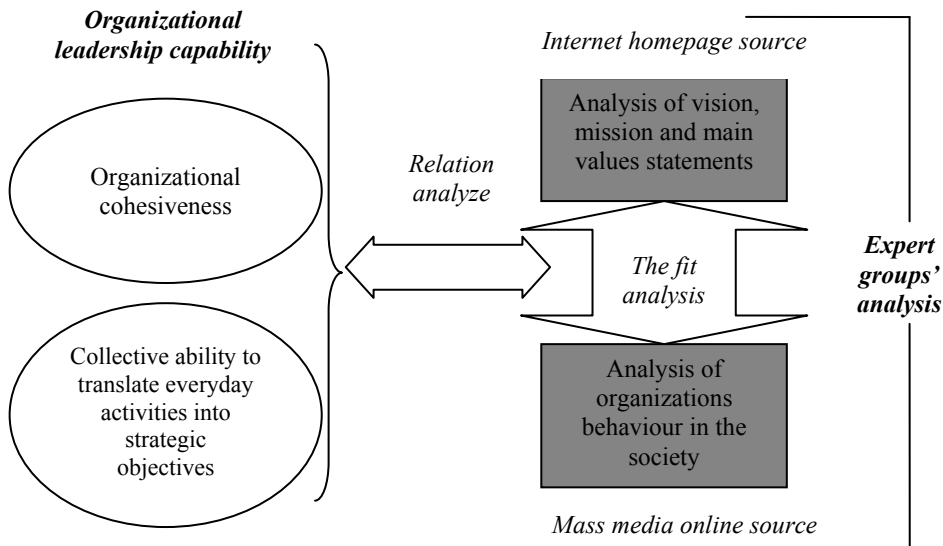
Source: compiled by the author

Notes: \* – rank is 1 or 2; CSR – corporate social responsibility; OLC – organizational leadership capability

According to the ranking of organizational leadership capability and the CSR value of organizations indicated in table 43, the Spearman's correlation coefficient was calculated and a double-trail t-test was used for estimating the significance level. The resulting Spearman's correlation coefficient  $\rho = 0.949$  at the significance level of  $p = 0.051$  indicates the relationship between organizational leadership capability and CSR with respect to internal and external stakeholders together. However, these correlation values do not show the strength of the correlation – this is due to the small sample size – but the high value of the significance is important and stresses the existence of a positive relationship. **This result supports proposition 4a, which states that organizational leadership capability towards stakeholders has a positive relationship with the CSR of the organization.**

In investigating the relationship between organizational leadership capability and the organizations ethical behaviour, the same sample of organizations (two banks  $n_1=73$ ,  $n_2=111$ , and two retail organizations  $n_3=82$ ,  $n_4=109$ ) as for testing the previous proposition were used. The study was carried out according to the framework for estimating the relationship between organizational leadership capability and the ethical behaviour of organizations (figure 33), where two

groups of experts for the each organization were used to estimate the ethical behaviour of organizations (expert groups A and B for bank  $n_1=73$ , expert groups C and D for bank  $n_2=111$ , expert groups E and F for retail organization  $n_3=82$ , and expert groups G and H for retail organization  $n_4=109$ ).



**Figure 33.** Framework for estimating the relationship between organizational leadership capability and the ethical behaviour of organizations  
Source: compiled by the author

The ethical behaviour of organizations was measured by analysing the organizations' internet homepages and how the organizations had been reported in online mass media for the period from December 2009 to February 2010. The analysis of information from the organizations' internet homepages and online mass media reports about them was conducted by the author and eight groups of experts formed from 26 MBA students at the University of Tartu. The estimation of ethical behaviour was conducted by analysing statements of vision, mission and main values as the main elements of the organization's strategy and comparing these results with the organizations behaviour described in online mass media about them.

Groups A and B, who analysed bank  $n_1=73$  found that the vision statement is oriented towards the organization's future and built up using three elements – customer satisfaction, largest profitability and to be an attractive employer. The mission statement focuses on customers' needs and increasing organizational value, and the main values stated are orientation to results, openness, innovativeness and devotion. Group A identified that customer focus is not covered in accordance with the vision or mission statement in the current context of



economic decline. Profitability and increasing organizational value are top priority. In addition, they found alignment between the main values “orientation to results” and “orientation to innovation” and the real behaviour of the organizations. Group B added the mismatch of the vision statement towards to employees as well, and identified that the real behaviour of this organization is not in line with the stated main values.<sup>12</sup>

Groups C and D analysed bank  $n_2=111$  and found that the vision statement focuses on customers and highest financial performance. The mission focuses on being a responsible organization was found to be too declarative, and the main values were honesty professionalism, devotion and consistency. By analysing the real behaviour of the organization according to the vision statement, group C found that shareholder profitability was the main priority, while group D also found high satisfaction of customers as a strong priority. However, group D states that organizational activities do not extend to all groups of stakeholders. Finally, both groups highlighted the dominance of activities aimed at profitability, which aligns with professionalism – one of the main values – described through profitability.<sup>13</sup>

Groups E and F analysed retail organization  $n_3=82$  and did not find the vision statement from the internet homepage. The mission statement focuses on customer confidence building and this statement reflects the main values, which were stated as honesty, competence, cooperation, consideration and devotion. Both groups found that real activities are focused on customers. Also, group F argues that activities focus on a broad variety of external stakeholder groups. Group E identified that their behaviour aligns strongly with the main value “consideration”.<sup>14</sup>

Groups G and H analysed retail organization  $n_4=109$  and found that instead of vision and mission statements, the organization uses a “goal-idea” statement. In the analysis, both groups found that this goal-idea corresponds to the function of a mission statement with all the necessary parameters and focuses on customer emotions. The analysis identified the main values as creation, good will, cooperation and honesty. In terms of real behaviour, both groups found “creation” as the dominant value.

Table 44 summarizes the analysis results of organizational behaviour in accordance with the main elements of their stated strategy.

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<sup>12</sup> One expert in this group is employee at this organization and this might be the reason why the group was a little too critical. This expert expressed that the main values are too declarative, trying to show the organization in a better light to outsiders.

<sup>13</sup> Finance inspection has drawn attention to conflict of both banks ( $n_1=73$  and  $n_2=111$ ) economical behaviour between their own interest and customers treatment.

<sup>14</sup> They offer the job approximately to 50 persons with disabilities.

**Table 44.** The alignment of the main elements of strategic statements with behaviour

Organization	Vision	Mission	Main values
Bank $n_1=73$	Profit	Organizational value creation	Profitability
Bank $n_2=111$	Financial performance	Not stated	Profit gain
Retail organization $n_3=82$	Not stated	Customers	Consideration to broader society
Retail organization $n_4=109$	Not stated	Customers' emotions	Creativity

Source: compiled by the author

Finally, each group of experts presented the results of their analysis to the other expert groups, and the behaviour of each organization was discussed together. From this open discussion, all experts agreed that retail organizations behave more ethically compared with the banks in this case. While the behaviour of the banks is mainly orientated towards actions focused on organizational profitability and value creation, retail organizations are more concerned with human resource values in their business activities. These results are presented in table 45 with the results of organizational leadership capability, where the level of organizational leadership capability for the banks is higher compared to the retail organizations (table 29 in the subchapter 2.4.1), but their CSP in terms of ethical behaviour was estimated by the experts to be lower in comparison to retail organizations.

**Table 45.** Comparison of ethical behaviour and organizational leadership capability

Organization	CSP in terms of ethical behaviour	Organizational Leadership Capability
Bank $n_1=73$	Low	High
Bank $n_2=111$	Low	High
Retail organization $n_3=82$	High	Low
Retail organization $n_4=109$	High	Low

Source: compiled by the author

*Note: CSP – corporate social performance*

**The results of this study, presented in terms of a comparison of ethical behaviour and organizational leadership capability of organizations, do not support proposition 4b, which states that organizations with higher organizational leadership capability have greater respect in society.** This illustrates that organizational leadership capability measured using the created measurement tool is more towards the rational than the broad social behaviour of organizations.

## **2.5. Discussion of the scope of organizational leadership capability**

### **2.5.1. Measurement tool of organizational leadership capability**

Many scholars have discussed different approaches to and perspectives on leadership at the collective level, but only a few of them have made any attempt to examine this. Investigations have primarily ended with qualitative models, such as Day *et al* (2004), O'Connor and Quinn (2004), Zaccaro *et al* (2001), or are a qualitative examination as in the work by Denis *et al* (2001). Some investigations examine collective leadership quantitatively as in Hiller *et al* (2006), and Hofmann and Jones (2005), but they do not examine the leadership capability that is embedded in the structure of organizations. The measurement tool created by Pasternack *et al* (2001) allows us to measure leadership capability, but only at the level of management.

Therefore, the contribution this dissertation has made is to elaborate a questionnaire (measurement tool) for evaluating organizational leadership capability. This outlines three considerations.

Firstly, to the author's knowledge, a theoretical framework encompasses the main factors in the framework for measuring the capability of organizational leadership. Several authors, such as Osborn and Hunt (2007), Morrill (2007), Avery (2006), O'Connor and Quinn (2004), Edvinsson (2002), Denis *et al* (2001) and Pasternack *et al* (2001) have viewed leadership from the organizational level. According to them, leadership is interpreted as the capability of organizations revealed through organizational behaviours in terms of organizations as a complex open system that detect and cope with changes in the external environment. However, this understanding is based on the perspective of strategic management and system theory, where leadership activity has become embedded in the structural pattern of organizations. The same idea is viewed by Pasternack *et al* (2001) as institutional leadership in their institutional Leadership Quotient (LQ) model. Two dimensions (alignment and adaptability) from their institutional LQ model have also been used as the main dimensions in the framework of organizational leadership capability (figure 8 in subchapter 1.2). In addition, this framework stresses those factors that create these two dimensions (table 46), and it allows us to develop a tool for measuring organizational leadership capability.

**Table 46.** Organizational leadership capability factors and dimensions

Dimensions of OLC	Factors of OLC	Sub-factors of OLC
Organizational orientation	Alignment and cohesion	Extent of centralisation Informal communication
Organizational adaptation	Architecture of internal network	
	Control-feedback system	

Source: compiled by the author

Note: OLC – organizational leadership capability

Secondly, a measurement tool for evaluating organizational capability was developed including 22 statements (16 independent and 6 dependent statements), which makes it possible to measure organizational leadership capability. The reliability and validity of these statements were tested statistically in subchapter 2.2. Earlier, Pasternack *et al* (2001) measured organizational leadership capability using their institutional LQ measurement tool. Their measurement tool includes 65 statements, which have been drawn into 12 enabling systems. The measurement tool for organizational leadership capability is shorter and only includes 16 statements in independent constructs and these statements have been drawn into 3 main factors (table 46). From the practical point of view, the shorter measurement tool has many advantages: it is easier to collect answers from a large sample of respondents; it is simple to calculate and analyse the collected answers; it is also possible to measure organizations as a whole or separate areas or management levels.

Thirdly, the capability of leadership at the organizational level was evaluated in chapter 2.3. The principles for measuring the capability of organizational leadership distinguish two main perspectives: the perspective of leadership at the organizational level embedded in the structure of organizations; and the perspective of complexity theory that considers organizations as complex adaptive systems. Both of these consider a systems perspective to leadership at different levels (individual, group, team and organizational) interlaced with each other in a way that compounds them as a single whole. This holistic system presents the leadership capability of an organization as a combination, where the main principles (dimensions in the framework of organizational leadership capability – see table 46) of organizational behaviours interact with each other. Therefore, organizational leadership capability was evaluated using interactions between its factors defined as organizational cohesiveness and the collective ability to explain the everyday activities of individuals within the strategic objectives of an organization. This allows us to evaluate the capability of leadership at the organizational level with its entity as a complete system and examine the relationship between organizational leadership capability and the performance of organizations using two hypotheses (H.1 and H.2) that

represent these two separate interactions between factors of organizational leadership capability (table 47).

**Table 47.** The influence of interactions of organizational leadership capability factors with organizational performance

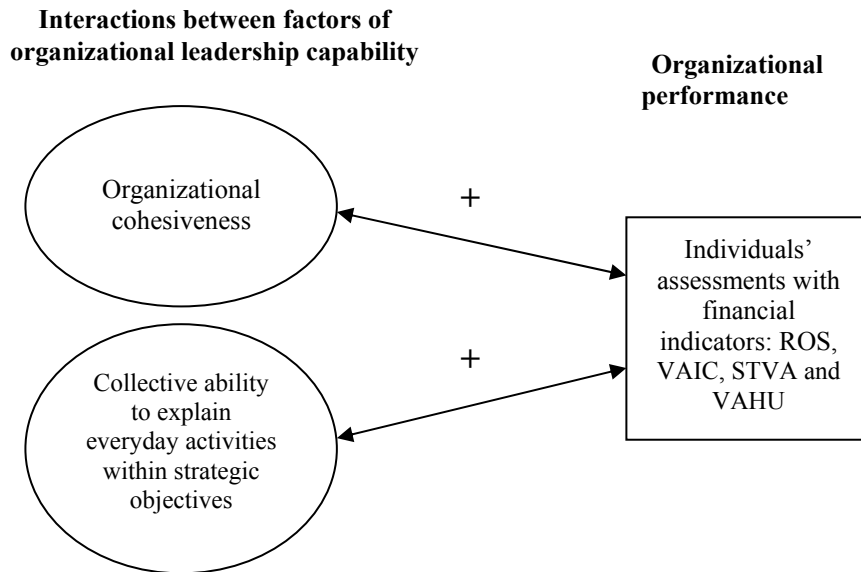
Hypothesis	Result
<b>H.1:</b> <i>Organizational cohesiveness is expected to have a positive relationship with organizational performance.</i>	Supported
<b>H.2:</b> <i>The collective ability to explain the everyday activities of individuals within the strategic objectives of an organization is expected to have a positive relationship with organizational performance.</i>	Supported

Source: compiled by the author

Hypotheses H.1 and H.2, which together reflect the capability of organizational leadership, were supported (table 47). The current investigation of eight organizations in the Estonian financial service sector found that organizational leadership capability has a positive relationship with organizational performance measured using the assessments of individuals about the performance of the organization and financial performance indicators: return on sales (ROS) – the efficiency of market orientation; the value added intellectual capital coefficient (VAIC) – the efficiency of intellectual capital in creating value added; the value added structural capital coefficient (STVA) – the efficiency of structural capital in creating value added; and the value added human capital coefficient (VAHU) – the efficiency of human capital in creating value added (figure 34).

It is important to note that these financial performance indicators express the market orientation of organizations, which illustrates some external aspects of the relationship with organizational leadership capability. Previous studies by Greenley (1995), Kohli and Jaworski (1990) and Narver and Slater (1990) have proven the relationship between market orientation and business performance measured using financial performance indicators. Different financial performance indicators emphasize different aspects of market orientation. It is proposed that return on sales (ROS) indicates the comprehensive market orientation of organizations. Kotler (1988) claims profitability as one of the three “pillars” in terms of defining market orientation. Narver and Slater (1990), Kohli and Jaworski (1990) also found that profits are perceived as a component of market orientation. Customer orientation as a subpart of market orientation (Greenley, 1995; Narver and Slater, 1990) becomes obvious according to the value added human capital coefficient (VAHU) in service organizations, which itself is revealed in everyday interactions between attendants and customers. A similar idea has been presented by Bontis (2002) as a positive relationship between organizational performance and its relational capital – a subpart of intellectual capital. Moreover, Narver and Slater (1990) and Houston (1986) suggest that

market orientation has a primarily long-term focus in implementing behavioural components of market orientation. In this study two other intellectual capital coefficients – the value added structural capital coefficient (STVA) and the aggregated value added intellectual capital coefficient (VAIC) (equations 10 and 12 in subchapter 1.3) both express the long-term focus of market orientation, and this could be described in terms of the loyalty behaviour of customers.



**Figure 34.** The relationship between interactions of organizational leadership capability factors and organizational performance

Source: compiled by the author

*Notes: ROS – return on sales; VAIC – value added intellectual coefficient; STVA – value added structural capital coefficient; VAHU – value added human capital coefficient*

The effect of organizational leadership capability is revealed in organizational processes where organizational leadership factors are interlaced with each other where two pairs of factors represent the two main dimensions. The results of testing hypotheses H.1 and H.2 provided a pattern of factors for these two interactions, which describes the relationship between organizational leadership capability and organizational performance. Table 48 presents the pattern of factors indicating the highest impact of organizational leadership capability.

The pattern of factors between “*alignment and cohesion*” and “*the architecture of the internal network*” indicates how organizational orientation is embedded in the collective cognitive structure – known as the schemata – that directs the behaviour of collective’s members (Anderson, 1999). According to

Holland (1992:68), schemata provide the basis for associating a combination of attributes with the potential for improving current performance. The other pattern of factors between “*alignment and cohesion*” and “*the control-feedback system*” indicates how well organizational monitoring processes are established for achieving organizational adaptability. These processes monitor and provide feedback on the accomplishment of organizational strategy and recalibrate the actions of the collective’s members when environmental conditions change (Zaccaro *et al*, 2001). Therefore, together these patterns of factors mark the effective distributed decision-making process that is coordinated by organizational leadership capability.

**Table 48.** Patterns of factors of organizational leadership capability interactions that secure higher organizational performance

Interaction	Pattern of factors
Organizational cohesiveness	AI & Coh $\approx$ AIN
Collective ability to explain everyday activities within strategic objectives	AI & Coh < CFS

Source: compiled by the author

Notes: AI & Coh – *Alignment and cohesion*; AIN – *Architecture of internal network*; CFS – *Control-feedback system*

Additionally, by using regression analyses (table 19 in subchapter 2.3), organizational leadership capability was found to have an amplifying property towards organizational outputs – increased returns to scale. This is somewhat claimed by Edvinsson (2002) in his book, where he points to the amplifying nature of organizational capital – organizational leadership capability in the context of this dissertation.

### **2.5.2. Organizational leadership capability and organizational functioning**

Leadership at the organizational level represents two interconnected forms of organizational behaviour: internal organizational and external environmental behaviour. The definition of organizational leadership in this dissertation refers to both of these: the collective activity of an organization turns our attention to the internal level of organizational behaviour, and organizational ability to detect and cope with changes in the external environment by maintaining the primary goals turns our attention to the external level of organizational behaviour. All this is in accordance with system theory where organizations as lower-level systems are parts of a higher-level system in the external

environment (Cummings, 2006). Organizational effectiveness depends on how organizations function at both levels – internal and external.

*External behaviour of an organization*

Organizational leadership capability is also related to external effectiveness in terms of external organizational functioning. The external functioning of organizations is towards competitiveness in the industry and the characteristics of the environment of the industry. Both propositions P.1a (about industry characteristics) and P.1b (about competitiveness in the industry) were supported (table 49). Thus, organizations with higher capability of organizational leadership also have higher external effectiveness.

**Table 49.** External organizational functioning in relation to organizational leadership capability

Proposition	Result
<b>P.1a:</b> <i>High-skills services have higher organizational leadership capability than low-skill services.</i>	Supported
<b>P.1b:</b> <i>Organizations with higher competitive behaviour have higher organizational leadership capability than organizations with lower competitive behaviour.</i>	Supported

Source: compiled by the author

The results of propositions P.1a and P.1b present the property of organizational leadership capability to create organizational fit with environmental dynamics and complexity. Leadership in these circumstances not only takes account of the external environment, but also considers the organization's future position (Avery, 2006:133). Two concepts, strategic leadership and system theory are concerned with this organizational behaviour.

System theory consists of a large set of different theories, each one highlighting an important mechanism of the external function of systems. Cybernetics views organizations as self-regulating, goal-directed systems adapting to their environment, and system dynamics adding an amplifying or positive feedback process (Stacey, 2010:39), which stimulates organizations to adapt and develop (Stermann, 2001; Wheatley, 1999) according to the dynamics of the environment. Additionally, complexity theory views organizations as CAS operating in turbulent environments and seeking greater fitness in an uncertain world through self-organization (Osborn and Hunt, 2007).

Strategic leadership could be viewed at both the individual and the collective level (Osborn, Hunt and Jauch, 2002). However, the concept of strategic leadership deals with organizational effectiveness where the organization is a unit of analysis in its external environment (Boal and Hooijberg, 2000; Denis *et al*, 2001). The strategic activity itself is aimed at adaptability and “renewal”



(Liedtka, 2008) or change in organizations (Mintzberg *et al*, 2005). This improves the organization's strategic position and the competitive strength that organizations use for profit generation, growth support and market share increases.

Competiveness and rivalry in the environment of the industry is always dynamic (Smith *et al*, 2008). Innovation is one important factor in this dynamic competition (Teece, 2009:240; Smith *et al*, 2008), and determines organizations' ability to renew core competences in accordance with the requirements of a changing environment. Organizational capabilities and competences link with the competitive environment (Tallman, 2003), and capabilities are a potential source of competitive advantage (Sanchez, 2003). Additionally, capabilities as intangible assets (Tallman, 2003) are those attributes of an organization that enable it to exploit its resources in implementing strategy to gain superior performance (Barney and Arian, 2008). The capability of organizational leadership, which coordinates the integration of different organizational capabilities and resources into competitive advantage and success for an organization is essential here. Thus, organizations with higher organizational leadership capability are able to obtain success in a dynamic competitive industry environment, and the supported proposition P.1b illustrates this.

Service industries differ from each other in terms of the complexity, which arises from the character of the services and the dynamics of the industry. From the literature, we can highlight four factors, which explain the complexity of an industry: the use of knowledge and skills (Reich, 1993) – high-skill and low-skill services (Segal-Horn, 2003); the use of economies of scale and scope (Segal-Horn, 2003); the use of intensity of technology (Miles, 1999); and the velocity of the industry (Nadkarni and Barr, 2008). These factors more or less depend on each other. For example, industries with high-skill services have a greater variety in operations – economies of scope (McGee, 2006b) – and greater use of technology influences the increase of velocity in the industry and all these together increase the complexity of the industry.

In this dissertation, organizations in the retail industry are characterised as low-skill services with high economies of scale and low economies of scope (Segal-Horn, 2003). On the contrary, organizations in the banking industry are characterised as high-skill services with moderate economies of scale and high economies of scope (Segal-Horn, 2003), and a high use of IT that reduces their service complexity (Roth and Jackson, 1995). Also, the velocity of the banking industry is higher compared to the retail industry. All this describes the greater complexity of banking businesses compared to retail businesses. In order to manage the greater complexity of the business, the organizations need greater capability of organizational leadership as well, and this is illustrated by the supported proposition P.1a

#### *Internal behaviour of an organization*

The relationship between internal organizational function and organizational leadership capability was tested by estimating the job satisfaction of employees at the individual and at the organizational level. Intrinsic aspects of job satis-

faction reflect employee attitudes to organizational functioning at the personal level, and extrinsic aspects of job satisfaction reflect attitudes to organizational functioning at the organizational (work environment) level (Arvey *et al*, 1989). The results of tests for propositions (P.2a and P.2b) show that organizational functioning at the personal level is not related to organizational leadership capability, while organizational functioning at the organizational level is related to organizational leadership capability (table 50).

**Table 50.** The relationship of internal organizational functioning to organizational leadership capability

Proposition	Result
<b>P.2a:</b> <i>Groups in an organization with higher intrinsic job satisfaction of employees have higher organizational leadership capability than groups with lower intrinsic job satisfaction of employees.</i>	Not supported
<b>P.2b:</b> <i>Groups in an organization with higher extrinsic job satisfaction of employees have higher organizational leadership capability than groups with lower extrinsic job satisfaction of employees.</i>	Supported

Source: compiled by the author

The relationship of organizational leadership capability to the internal functioning of the organization at the organizational level is an expected result because organizational leadership is an organizational phenomenon. Leadership is viewed as a property of the whole organization by different scholars (e.g., Avery, 2006; Lichtenstein *et al*, 2006; O'Connor and Quinn, 2004). Complexity theorists view leadership as an emergent phenomenon at the organizational level (Stacey, 2010; Lichtenstein *et al*, 2006). According to this, leadership in organizational systems arises from interactions between people (agents in CAS) and between people and organizational systems (Avery, 2006:133). The same leadership emergent phenomenon has been demonstrated by Hogg (2001) in his social identity theory, where leadership is viewed as a group process that is associated with group social identity.

According to Lichtenstein *et al* (2006), leadership occurs within social systems, and in addition to Hogg (2001), leadership has structural features at the group level of social systems. From the point of view of complexity theory, organizations are patterns of interactions between agents (people) (Stacey, 2010:8), which are regulated by feedback loops (Anderson, 1999). Also, Jackson (2007:67) states that the interrelationships between feedback loops constitute the structure of the system, and it is this structure that is the prime determinant of system behaviour. Considering this, organizational leadership is embedded in the structure of an organizational system and emerges as a capability of organizational leadership. Therefore, in accordance with the supported proposition P.2b, organizational effectiveness in terms of organizational

functioning at the internal level illustrates its relationship with organizational leadership capability.

### **2.5.3. Organizational leadership capability and organizational performance**

Most leadership scholars argue that multiple leadership at the organizational level directly or non-directly influences organizational performance (e.g. Yukl, 2008; Yammarino *et al*, 2008). Also, there is wide variety of organizational performance measures. Osborn and Hunt (2007) state that organizational performance could be measured in terms of innovation, profitability, adaptability, survival, viability, ethics, contribution to society or functions. At the same time, strategic leadership stress the efficiency of an organization as well as stakeholder need to achieve organizational effectiveness (Boal and Hooijberg, 2000). Mostly, the efficiency of organizations is estimated using financial performance measures and stakeholder need using social performance measures such as CSR and ethics.

#### *Organizational leadership capability in relation to financial performance*

There is a widely spread understanding that leadership has a positive influence on organizational performance. Osborn and Hunt (2007) doubt that any type of leadership alters performance. They suggest that specific aspects of leadership in specific domains influence specific aspects of performance. From this point of view organizational leadership as an organizational phenomenon should influence organizational performance (indicators), which somehow explains the efficient response of the organization to its environment and dynamics.

This investigation confirms that organizational leadership as an embedded capability of the organizational system has a relationship with organizational performance, which is measured by financial measures such as ROS, VAIC, STVA and VAHU. Proposition P.3a, which concerns financial measures as a growth of sales and profitability was not supported, and the financial performance indicator ROA in proposition P.3b was not supported either (table 51). There could be several reasons why proposition P.3a was not supported and proposition P.3b was only partly supported (not supported in terms of ROA). Firstly, previous leadership performance investigations that use sales and profit figures were made using industrial organizations (e.g. Haleblian and Finkelstein, 1993; Lieberman and O'Connor, 1972). The performance of industrial organizations depends more on physical assets compared to service organizations – ROA is sensitive to physical assets and business specific activities. Secondly, traditional financial measures such as sales and profit growth, and profit ratios such as ROS and ROA are short-term efficiency indicators (e.g. Osborn and Hunt, 2007; Short *et al*, 2007), and the values of sales and profitability fluctuate greatly. Organizational leadership capability, which is embedded in the systems and structure of organizations, is stable – only

developing, not fluctuating over short periods of time. Therefore, highly fluctuating measures are not related to the capability of organizational leadership.

**Table 51.** Organizational financial performance in relation to organizational leadership capability

Proposition	Result
<b>P.3a:</b> <i>Organizational leadership capability has a relationship with internal organizational efficiency (or profit) and external sales growth.</i>	Not supported
<b>P.3b:</b> <i>Organizational leadership capability has a relationship with organizational profitability measured using profit ratios such as return on sales (ROS) and return on assets (ROA).</i>	Partly Supported
<b>P.3c:</b> <i>Organizational leadership capability has a relationship with organizational performance measured as value added via intellectual capital with its components in organizations.</i>	Supported

Source: compiled by the author

Within proposition P.3b, only the relationship with ROS is supported. ROS as one of the profit ratios is a multifaceted indicator, which combines the operational efficiency of an organization on the one hand, and on the other, market orientation. The study by Bontis *et al* (2002) showed a positive relationship between performance indicators such as ROR (similar to ROS) and organizational learning. In their investigation they used the 4I model of organizational learning by Crossan, Lane and White (1999), which concerns individual knowledge and skills transfer, integration and embeddings in organizational assets. The organizational leadership capability framework has some common properties with the 4I's model. These two models are based on the same keystones that stress organizational knowledge and skills, which secure performance and success for organizations. However, organizational leadership capability only concerns embedded leadership knowledge and skills from across all organizational levels in organizational assets, but the similarity of the relationship to organizational performance measured using the financial indicator ROS is important.

Proposition P.3c, which is supported (table 51), highlights intellectual capital as an important source for organizations in value creation. Intellectual capital exists in different forms in organizations. Knowledge, skills and abilities of individuals as the human capital of the organization (Wright *et al*, 2007) need to be transformed into knowledge and skills at the group and organizational level (Takeuchi and Nonaka, 2002), known as the structural capital of organizations (Roos *et al*, 1998). In this process tacit knowledge transforms to explicit knowledge and *vice versa* (Takeuchi and Nonaka, 2002), and integrates across all organizational levels to become the capabilities of an organization (Grant, 1996), which are able to secure performance achievement for

organizations. Organizational leadership provides the coordinating mechanism, which is needed for such integration processes.

According to complexity theory, organizations act as networks of inter-dependent agents, which are coordinated largely by bottom-up dynamics that function to resolve local conflicting constraints and obtain the necessary resources (Marion and Uhl-Bien, 2001). Organizations in service industries that rely more heavily on human capital (Powell, 1996) especially depend on this type of capability where leadership knowledge and skills are embedded in the whole operational network of an organization. New financial performance indicators that denote intellectual capital were used to test these knowledge and skills relationships with organizational performance. While VAIC measures the performance created by all the intellectual capital of an organization, then VAHU measures the performance created only by the human capital, and STVA only by the structural capital (Pulic, 2000a). The relationship of organizational leadership capability to organizational performance measured using these intellectual capital indicators was supported. Thus, the capability of organizational leadership is related to all domains of intellectual capital and their dynamics in the value creation process.

#### *Organizational leadership capability in relation to social performance*

Organizational social performance and social responsibility have become one of the most important issues in strategic management (e.g. Becerra, 2009; Pearce and Robinson, 2009) concerning the influences between the organization and its environment. CSP has been viewed as the impact of business behaviour on society (Husted and Salazar, 2006), and CSR as an organization's activities that can create or destroy stakeholder wealth (Mackey, Mackey and Barney, 2007).

These social issues of management focus on environmental management (Klassen and McLaughlin, 1996) and stakeholder management (Freeman and McVea, 2008) that makes it possible to influence organizational performance not only from the economic but also from the broad social point of view. According to system theory, the external links are part of every organization, which connect it to a much larger environmental network. This network connects together different groups of stakeholders (internal and external) in the development process of collective strategies that optimize the network (Freeman and McVea, 2008) and increase the social performance of organizations. From this point of view organizational leadership capability as a phenomenon of the organizational network is interconnected with the whole network of society. Therefore, the greater the organizational leadership capability the better the connections with different groups of stakeholders, which could be seen in a greater level of CSR in the organization. Proposition P.4a, which is also supported (table 52), confirms this link between organizational leadership capability and social performance.

**Table 52.** Corporate social performance relation with organizational leadership capability

<b>Proposition</b>	<b>Result</b>
<b>P.4a:</b> <i>Organizations with higher organizational leadership capability have a higher degree of CSR.</i>	Supported
<b>P.4b:</b> <i>Organizations with higher organizational leadership capability have greater respect in society.</i>	Not Supported

Source: compiled by the author

Note: CSR – corporate social responsibility

Surprisingly, proposition P.4b, which assessed the organizational leadership capability in relation to ethical behaviour as a social outcome of organizations, was not supported. It is also important that the results of testing propositions P.4a and P.4b are contradictory (table 52). This could be come from the complexity of the balance between financial and social outcomes, which have to satisfy a wide variety of stakeholder groups. The organization's policies and decisions try to find this balance. Moreover, these policies and decisions have a cumulative effect on the reputation of an organization (Jones, 1995), which is a reflection of its ethical behaviour. However, the literature does not offer an exact answer about the relationship between social and financial performance. Different studies have found very different relationships between social and financial performance: a positive correlation (e.g. Orlitzky *et al*, 2003; Capon *et al*, 1990); a positive correlation in terms of historical economic performance (e.g. McGuire, Sungren and Schneeweis, 1988); and negative or no correlation (e.g. Arlow and Gannon, 1982). From another angle, D. J. Wood highlighted that bad social performance hurts an organization financially (Freeman and McVea, 2008) – this means that contrary to bad social performance, the influence of positive social performance on financial performance is not significant.

However, the social responsibility and ethical behaviour of organizations are different facets of the same organizational outcome – CSP. In order to confirm a relationship between organizational leadership capability and organizational social performance, both propositions P.4a and P.4b should be supported. Therefore, the relationship between the capability of organizational leadership and CSP is only partly supported.

#### **2.5.4. Managerial implications for increasing organizational leadership capability and organizational effectiveness**

The exploratory study in this investigation highlights initial relationships between the capability of organizational leadership and organizational effectiveness in terms of organizational functioning as well as organizational performance. The main conclusions of this study were used for the development of managerial implications in this subchapter.

Four propositions P.1a, P.1b, P.2a and P.2b were used to test the relationship between organizational leadership capability and organizational functioning. Three propositions from among them (P.1a, P.1b and P.2b) were supported; only one proposition, P.2a, was not supported. Two conclusions come from these supported propositions (table 53) and they are the bases for managerial implications (figure 35) in order to increase organizational functioning in terms of organizational leadership capability. Table 53 summarizes the conclusions and managerial implications from the supported propositions about the relationship between organizational leadership capability and organizational functioning.

**Table 53.** Summary of the conclusions and implications about the relationship between organizational leadership capability and organizational functioning

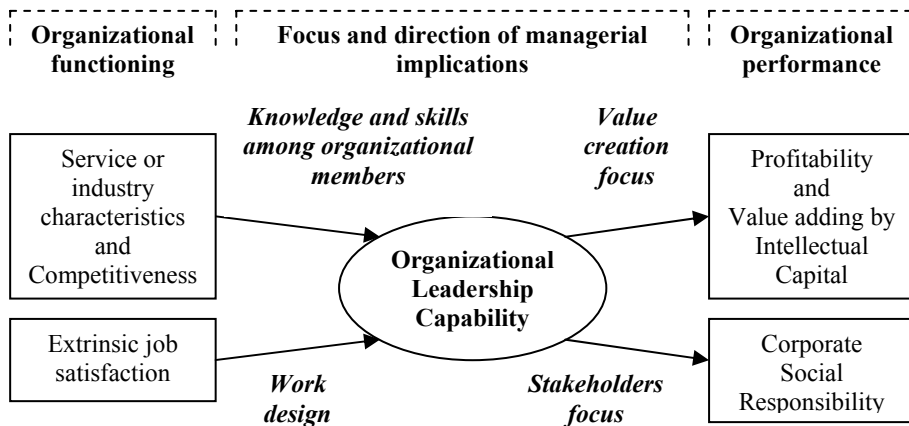
Conclusions	Implications
OLC relation with: <ul style="list-style-type: none"> <li>• knowledge and skills of individuals;</li> <li>• satisfaction of extrinsic job.</li> </ul>	Develop and maintain: <ul style="list-style-type: none"> <li>• leadership skills of individuals;</li> <li>• working conditions.</li> </ul>

Source: compiled by the author

*Note: OLC – Organizational leadership capability*

From propositions P.1a and P.1b it follows that organizations with higher competitive power and high-skill activities have higher organizational leadership capability. Organizational competitiveness and the characteristics of services (industry characteristics) itself is one of the most important aspects that influences organizational leadership capability. First, high organizational leadership capability reflects the organizational knowledge and skills of members to monitor and analyse the dynamics of the industry environment – competitors activities, technological development and changes in environment. Such knowledge and skills guide the dynamics of strategy, which secures competitive advantage and the success of an organization. Mintzberg *et al* (2005:12) and Gratton (2000:47) describe this as a process of strategy emergence that accrues to a deliberated strategy. Second, high-skills and complexity of services demands higher capability of organizational leadership compared to low-skills and less complexity of services. Service organizations that build up their competitive advantage by integrating different business knowledge and skills (high scope economies services) have a greater need for management and leadership knowledge and skills that coordinate these processes in organizations. Therefore, it is important to develop management and leadership knowledge and skills among organizational members across all organizational levels. All this together allows us to secure the innovative behaviour of organizational members and the long-term success of the organization.

From proposition P.2b it follows that groups of employees with higher extrinsic job satisfaction have higher organizational leadership capability. This exemplifies the other important aspect of organizational leadership capability, which deals with the design of the working environment. In this study working conditions, supervision and social climate as extrinsic facets of job satisfaction specify the working environment in an organization. Working conditions cover all physical aspects – “soft” and “hard” in the work environment. Supervision covers the management system and processes where the empowerment of employees, the virtual mode of work (away from the office) and fairness in performance evaluation procedures are important in high-skill work. The social climate covers all aspects of the social environment that create social networks for employees, which allows the transferral of information and the creation of new information in the organization. It is important here that the positive effect of organizational leadership capability could be reached by designing the working environment with the importance of all extrinsic facets of the job together. Fulfilling only some will not have any effect – this can be seen from subchapter 2.4.1 where two different groups were compared. From among extrinsic facets of job satisfaction, aspects of working conditions are the easiest to satisfy (see table 27 in subchapter 2.4.1). However, since these aspects are basically concerned with physical and administrative arrangements, they are strongly interrelated with other aspects of extrinsic facets such as supervision and the social climate in the organization. For example, high empowerment of employees and a limited virtual mode decreases the need for the personal level of leadership (Harris *et al*, 2009; Golden and Veiga, 2008).



**Figure 35.** Organizational leadership capability in relation to organizational functioning and performance

Source: compiled by the author



Five propositions P.3a, P.3b, P.3c, P.4a and P.4b were used to test organizational leadership capability in relation to organizational performance. Two propositions from among them (P.3c and P.4a) were supported; one proposition (P.3b) was partly supported; and two propositions (P.3a and P.4b) were not supported. Two conclusions come from these supported and partly supported propositions (table 54) and they are the bases for managerial implications (figure 35) in order to improve the design of the monitoring system in terms of financial and non-financial performance indicators. These indicators should concern the value creation of the organization as well as responsibility towards to a broad variety of different stakeholder groups. Table 54 summarizes the conclusions and managerial implications from the supported propositions about the relationship between organizational leadership capability and organizational performance.

**Table 54.** Summary of conclusions and implications about the relationship between organizational leadership capability and organizational performance

Conclusions	Implications
OLC relation with: <ul style="list-style-type: none"> <li>financial performance measures as ROS, VAIC, VAHU and STVA;</li> <li>non-financial performance measure as corporate social responsibility.</li> </ul>	Measure and monitor: <ul style="list-style-type: none"> <li>embedded intellectual capital of an organization;</li> <li>organizational network with society.</li> </ul>

Source: compiled by the author

*Notes: OLC – Organizational leadership capability; ROS – return on sales; VAIC – value added intellectual coefficient; STVA – value added structural capital coefficient; VAHU – value added human capital coefficient*

From propositions P.3b and P.3c it follows that organizations with higher organizational leadership capability have higher performance measured using financial performance measures such as ROS, VAIC, VAHU and STVA. The profitability of organizations was usually measured using traditional finance performance indicators, which have been designed to measure finance or real capital efficiency or finance and real capital efficiency together. For service organizations, which basically use knowledge and skills in their every day activities, these financial performance indicators are not sufficient at all. This is the reason why proposition P.3b was only partly supported and it was for finance performance indicator ROS, which is more universal – concerns both the operational efficiency and market orientation of an organization at the same time.

Financial indicators that denote value added via intellectual capital are more suitable for such organizations. There are three indicators that denote value added via intellectual capital and each of them has a relationship with organizational leadership capability. While the value added intellectual coefficient (VAIC) is concerned with value added via the total intellectual capital of the

organization, two others, the value added human capital coefficient (VAHU) and the value added structural capital coefficient (STVA) are concerned with value added via subparts of intellectual capital such as the human capital and structural capital of the organization. It is important that the VAIC method developed by Pulic (2000a, b) allows us to estimate value added via intellectual capital for organizations that have not been listed on the stock market. In the service sector there are many small, medium-sized and even large organizations, which have not been listed on the stock market, and therefore, they are not able to monitor their intellectual capital using MVA (market value added) and Tobin  $Q$ . Also, this method allows us to monitor the dynamics of flows between components of intellectual capital such as human capital and structural capital. Flows between components of intellectual capital were mentioned by Roos *et al* (1998:53), and monitoring these flows helps managers in the decision-making process. Therefore, to manage important intellectual organizational resources such as organizational leadership capability, the performance monitoring system design should include, besides traditional finance performance indicators, also indicators that denote value added via intellectual capital.

From proposition P.4a it follows that organizations with higher organizational leadership capability perform better in terms of corporate social responsibility. CSR is one of most used non-financial performance measures in the field of strategic management and it measures the organizational network interconnection with the whole network of society. By using the CSR concept, managers can look at the balance between creating value for shareholders and value for society in general. Attention to a broad variety of different stakeholder groups such as external and internal groups of stakeholders allows managers to reach this balance. The relationship between organizational leadership capability and CSR represents a mutual influence, where CSR is a dependent variable in terms of external stakeholder groups and an independent variable in terms of internal stakeholder groups. Focusing on the different external stakeholders groups develops and increases the monitoring capability of the organization in regard to the external environment, which increasing the balance between the organization and its external environment. From another angle, the development of CSR towards internal stakeholders – different groups of organizational members – improves organizational functioning in terms of organizational leadership capability.

The results of this study have implications in the field of organizational behaviour and strategic management. The important issue here is to what extent has the leadership in an organization been embedded in the structure of the organization – the capability of an organization – in order to secure organizational success. The measurement tool for evaluating organizational leadership capability developed in this study is able to visualize this embedded leadership capability within the structural pattern of the organization. Also, the measures in the measurement tool help managers increase the quality and efficiency of management in every day practice. The size and number of gaps between the

main factor values (pattern of main factors) measured by the measurement tool provide managers with signals and information about the kind of managerial and organizational processes that should be taken into focus.

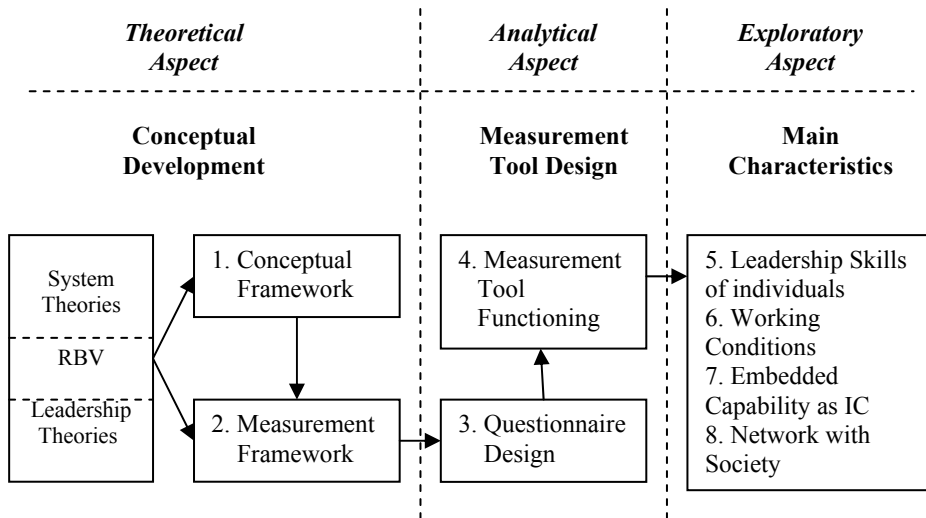
There are some limitations to the current study that also need to be addressed. The current study took place within service-oriented industries; only one industrial organization was used in the first stage of the study (in subchapter 2.2) to design the measurement tool of organizational leadership capability. This organization, especially considering that the respondents from this organization had been chosen only from among managers and specialists, is not sufficient to confirm the validity of the developed measurement tool for production-oriented industries. Therefore, the measurement tool of organizational leadership capability is not applicable in production-orientated organizations. To confirm the validity of the measurement tool within production-oriented industries, the measurement tool should be tested separately in organizations in these industries.

The other limiting factor deals with national/cultural issues. The measurement tool was designed and tested within the context of the Estonian culture. The nature of organizational leadership may be different in different cultures and this may directly influence interpretations of the statements in the developed measurement tool. Misalignments in interpretations could arise from differences in power distance, uncertainty avoidance and communication between and across organizational levels in different cultures. These factors should be considered when implementing the measurement tool of organizational leadership capability.

## CONCLUSION

Leadership at the organizational level is attracting increased interest in the literature on organizational behaviour and strategic management. This is due to its influence on organizational outcomes in terms of performance as well as effective organizational functioning. The organizational level of leadership has primarily been investigated in light of the top-down influence of management on organizational performance. Such studies use leadership concepts at the personal level, where leadership has not been viewed as a property of the whole organization. Other recent studies from complexity theory open up new perspectives of the leadership phenomenon, where leadership is viewed as a property of the whole organization arising from relational interactions between organizational members. These studies try to explain organizational functioning by pointing out organizational effectiveness. However, the phenomenon of leadership at the level of the entire organization has not been studied earlier as an organizational capability that influences organizational effectiveness in terms of organizational functioning and performance at the same time. This is due to a lack of suitable frameworks and measurement tools for such investigations.

The present dissertation consists of two major parts – theoretical and empirical – which focus on the three main aspects – theoretical, analytical and exploratory. Figure 36 summarizes the outcomes from these aspects.



**Figure 36.** The main outputs of the dissertation

Source: compiled by the author

Notes: RBV – Resource-based view; IC – Intellectual Capital

The theoretical aspect of this dissertation resulted with two important frameworks (figure 36). The conceptual framework opens up the phenomenon of organizational leadership capability and organizes the theoretical background for elaborating the measurement framework for evaluating this phenomenon. The measurement framework of organizational leadership capability provides the theoretical basis for elaborating a measurement tool and highlights the principles of its functioning.

The empirical aspect of this dissertation resulted in the measurement tool design (figure 36). This includes designing the questionnaire of Organizational Leadership Capability itself and evaluating its functioning principles demonstrated by the developed measurement framework of organizational leadership capability.

The exploratory aspect of this dissertation has analysed the preliminary relationship between the capability of organizational leadership and organizational effectiveness in Estonian service organizations. The preliminary relationships discovered highlight four main characteristics of organizational leadership capability (figure 36).

### **Theoretical background for developing the concept and the measurement framework of organizational leadership capability**

The theoretical part of the dissertation discussed the phenomenon of organizational leadership capability and its measurement. Also, it includes a discussion of the relationship between organizational leadership capability and organizational functioning and performance. More precisely, it focuses on the development of conceptual and measurement frameworks of organizational leadership capability.

In order to develop the conceptual framework for organizational leadership capability, three lines of theory from the literature were integrated. Complexity theory, which arises from the broad variety of system theories, explains the organization as a social system where the wholeness behaviour of an organization emerges from relational activities between agents in their networks. The other, RBV (resource-based view), explains how personal skills and the knowledge of the every day activities of agents are integrated in organizational capabilities as a form of strategic asset in an organization. The third, leadership theory highlights the power relationships between agents (organizational members), where leadership skills and the knowledge of individuals are the main sources of power that allows them to influence each other effectively. From this, organizational leadership capability is revealed as a dynamic process where the leadership phenomenon emerges throughout multi-level interactions between interdependent agents (organizational members) across all levels of an organization and becomes the embedded property of the entire organization. This dynamic process of leadership that creates the wholeness of an organi-

zation can be described using three types of dynamics intertwined with each other:

- relational connectivity between organizational members;
- the organizational process that combines all processes in an organization into a holistic figuration of processes;
- dynamic state, which is revealed in the strategic balance within the organization and with the environmental forces that affect it.

The leadership process described above carries a coordination mechanism across all organizational levels by reducing the top-down managerial control and internal transfer costs in an organization. Finally, the conceptual framework of organizational leadership capability highlights three main characteristics of the phenomenon by providing the basis for developing the measurement framework of organizational leadership capability.

The development of the measurement framework for the capability of organizational leadership follows perspectives of system theory where the organization's wholeness behaviour is revealed through its basic behaviour principles identified as two main dimensions – organizational orientation and organizational adaptation. In accordance with these principles, the developed measurement framework translates high-dimensional organizational behaviour into aggregated low-dimensional behaviour using the following three main factors – *alignment and cohesion*, *the architecture of the internal network* and the *control-feedback system*. These factors represent different domains of organizational behaviour as follows: the cognitive domain represented by *alignment and cohesion*; the sensor domain represented by the *control-feedback system*; and the social domain represented by the *architecture of the internal network*. The latter was divided into two sub-factors – the *extent of centralisation* and *informal communication* – which represent formal and informal networks respectively. Most important here is that this measurement framework opens up the wholeness behaviour of an organization, which emerges through interactions between global constraints – between the main factors respectively and their affiliation with the main dimensions (organizational orientation and adaptation). The developed measurement framework defines these interactions between the main factors of organizational leadership capability – “organizational cohesiveness” and “the collective ability to explain the everyday activities of individuals within the strategic objectives of an organization”.

### **The data and research methodology**

The study was carried out between 2004 and 2010 in three stages. In the first stage (2004–2007), a Questionnaire of Organizational Leadership Capability (the measurement tool) was worked out. Data were collected from six organizations with a total sample size of 445 respondents. In the second stage (2006–2008), data for evaluating the measurement tool of organizational leadership capability were collected from eight organizations offering financial services

with a total sample size of 555 respondents. In the third stage, data from the previous stages, new data from one IT organization (2009), and qualitative data (interviews and document analysis) collected for 2008–2010 were used for an exploratory study about the preliminary relationship between the capability of organizational leadership and organizational effectiveness.

The empirical research of this dissertation involved two parts. The first part focused on the development of the measurement tool for measuring the capability of organizational leadership (subchapter 2.2) and its evaluation (subchapter 2.3), and second part involved testing propositions for the preliminary relationship between the capability of organizational leadership and organizational effectiveness (subchapter 2.4). The methods used in the development and evaluation of the measurement tool (questionnaire of Organizational Leadership Capability) included an analysis of the written material, expert judgments, t-test, reliability analysis, correlation analysis, regression (PLS and OLS) analysis and descriptive statistics (mean quartile method). The statistical methods used to test the propositions included descriptive statistics (mean quartile method), mean comparison method (t-test) and correlation analysis (Spearman's rank).

The Questionnaire of Organizational Leadership Capability was formulated by the author according to the previously developed measurement framework for organizational leadership capability (subchapter 1.2). The author together with two experts formulated statements (items) for independent factors (three main factors and two sub-factors of organizational leadership) and for the dependent factor (assessment of organizational performance) 68 statements in all. The formulated statements were assessed by two groups of experts and corrected by the author. To test the formulated statements, 445 respondents from six organizations of different industries (two banks, two retailers, one school and one production organization) were asked to complete the preliminary questionnaire. The final composition of the questionnaire (22 statements – 6 statements in dependent factor and 16 statements in independent factors) was formed from the results of the collected data analysis performed using the Partial Least Squares (PLS) regression.

The evaluation of the developed measurement tool is based on the main properties of leadership at the organizational level: the wholeness behaviour of an organization emerges from interactions between global constraints (main factors); and the process of leadership is directed towards the effectiveness of an organization. In order to avoid extra influences that come from variations across different industries, eight organizations from a single industry (Estonian financial services), which covers 95% of the market in banking, 50% in leasing and 50% in insurance businesses, participated in this study. The combination of two methods – triangulation – as well as data was employed for this evaluation. The correlation analysis and OLS regression analysis use assessments of individuals on the one hand, and on the other, ranking mean values of organizations, aggregated assessments of individuals and objective data of organizations in quartiles. The results of this analysis confirmed the measurement tool's ability to estimate the capability of organizational leadership using interactions

between the main factors of organizational leadership defined as *organizational cohesiveness*, and the *collective ability to explain the everyday activities of individuals within the strategic objectives of an organization* with the measurement framework developed in subchapter 1.2.

The exploratory investigation with the developed measurement tool that opens up preliminary relationships between organizational leadership capability and organizational effectiveness was estimated in terms of organizational functioning and organizational performance. The estimation of effectiveness in terms of functioning was divided into the external and internal behaviour of an organization, and in terms of performance was divided into the financial and non-financial performance of an organization.

To estimate external behaviour, two samples were made – one that concerns industry characteristics and another that concerns competitiveness in the industry. The first sample includes four organizations (2 banks and 2 retailers), which represents high-skill and low-skill services with 378 respondents. The other sample includes five organizations in a narrow banking sector with 342 respondents. To estimate industry characteristics, a comparison of patterns of organizational leadership factors was used in interactions that were verified in the evaluation of organizational leadership capability in subchapter 2.3. To estimate competitiveness in the industry, Spearman's rank correlation analysis was used between levels of organizational leadership capability and performance indicators such as return on sales (ROS) and value added intellectual capital coefficient (VAIC). These analyses indicated a connection between organizational leadership capability and industry characteristics and competitiveness.

Internal organizational behaviours in terms of the relationship between job satisfaction and organizational leadership capability was studied on a small scale with 18 employees leading an Estonian IT company. Quantitative data were collected using the Questionnaire of Organizational Leadership Capability, and qualitative data about job satisfaction by interviewing all (100%) employees. A mean comparison of organizational leadership capability factor values between two groups of employees using a t-test as well as content analysis of interviews was performed to estimate the relationship. The result of this analysis indicated a relationship exists between organizational leadership capability and extrinsic job satisfaction.

To estimate the relationship between the capability of organizational leadership and financial performance, a quartile method was used that ranked the mean values of the aggregated values of individuals' assessments and the aggregated values of financial performance. The aggregated data of individual assessments was collected from eight organizations in financial services, and financial performance indicators were calculated from data from the annual reports of these organizations. Indicators such as change in sales, change in profit, return on sales (ROS), the value added intellectual capital coefficient (VAIC), the value added human capital coefficient (VAHU) and the value added structural capital coefficient (STVA) were used to form estimations for



2006–2007. The results of these analyses indicated a positive relationship between organizational leadership capability and ROS, VAIC, VAHU, and STVA.

Non-financial performance indicators such as corporate social responsibility (CSR) and the ethical behaviour of an organization were used to estimate relationships with organizational leadership capability. Expert groups collected data for CSR (4 expert groups in 2008) from websites and ethical behaviour (8 expert groups in 2009/2010) from websites and online mass media publications for the two largest banks and the two largest retailers in Estonia. Comparing the resulting data with the data on organizational leadership capability collected earlier showed a positive connection with CSR only and this was found by estimating the significance ( $p=0.051$ ) of Spearman's rank correlation.

### **Generalizations of findings and implications**

The main results of the study are the creation of the conceptual basis for the evaluation of organizational leadership capability and a measurement tool for investigating this phenomenon. Also, and not less important, a preliminary study was also conducted of the relationships between the capability of organizational leadership and organizational effectiveness.

The developed conceptual framework combines three sets of theories: leadership theories; the resource-based view; and complexity theory from among systems theories. These theories mark out the main characteristics of organizational leadership capability that open up it as a dynamic and holistic phenomenon and offer guidance for its measurement. The conceptual framework brought forward the following characteristics:

- *a dynamic process* that exists in *power relations* between organizational members (agents);
- *an intangible ability* that exists in the form of *organizational capability*;
- *a complex wholeness* that exists in the activities of the entire *social system* (network of agents).

The developed measurement framework of organizational leadership capability translates high-dimensional organizational behaviour into low-dimensional behaviour marked by three main factors:

- *alignment and cohesion* – the cognitive domain of behaviour;
- *the architecture of the internal network* – the social domain of behaviour, which consists of two sub-factors (*extent of centralisation* and *informal communication*);
- *control-feedback system* – the sensor domain of behaviour.

In accordance with system theory, the wholeness behaviour of the system emerges from interactions of global constraints. The measurement framework defines these interactions between the main factors as follows:

- *organizational cohesiveness* – the interaction between “*alignment and cohesion*” and “*the architecture of the internal network*”;
- *the collective ability to explain the everyday activities of individuals within the strategic objectives of an organization* – interaction between “*alignment and cohesion*” and “*control-feedback system*”.

The design of the measurement tool – the Questionnaire of the Organizational Leadership Capability – follows the factors developed in the measurement framework of organizational leadership capability, and organizational performance, which was added as a dependent factor. The final questionnaire includes 22 statements that were divided into factors as follows:

- *alignment and cohesion* – 4 statements;
- *the architecture of the internal network* – 4 statements, formed from the final statements of two sub-factors: *extent of centralization* (4 statements); and *informal communication* (4 statements);
- *control-feedback system* – 4 statements;
- *organizational performance* – 6 statements.

In order to identify the pattern of factors in interactions defined by the measurement framework of organizational leadership capability, the final design of the measurement tool was evaluated using a sample of Estonian financial service organizations. The pattern of factors in interactions that determine the strength of organizational leadership capability indicated that the values of the factors “*alignment and cohesion*” and “*the architecture of the internal network*” should be close to each other in interactions defined as “*organizational cohesiveness*”, and the value of the factor “*control-feedback system*” should be higher than the value of the factor “*alignment and cohesion*” in interactions defined as “*the collective ability to explain the everyday activities of individuals within the strategic objectives of an organization*”.

The other part of the dissertation implemented the developed measurement tool to explore the preliminary relationships between the capability of organizational leadership and organizational effectiveness. Leadership at all levels of the organization always directly or indirectly aims towards the effectiveness of the organization. This dissertation performs a preliminary investigation into the relationship between organizational leadership capability and organizational effectiveness. The effectiveness of an organization has been formulated in terms of organizational functioning and organizational performance. Organizational functioning covers both the external and internal behaviour of the organization where external behaviour has been primarily affected by characteristics and competition in the industry, and internal behaviour depends on both individual and organizational levels of factors in the organization – job satisfaction (intrinsic and extrinsic) in this dissertation. Organizational performance covers both financial and non-financial performance indicators where financial indicators include traditional financial indicators as well as new intellectual capital performance indicators and non-financial indicators include corporate social responsibility together with ethical behaviour towards a broad variety of

stakeholders. For estimating the above described organizational effectiveness, nine propositions according to the theoretical discussion were formulated – four propositions for exploring relationships with organizational functioning and five propositions for exploring relationships with organizational performance.

The investigation of the preliminary relationship between the capability of organizational leadership and organizational functioning highlighted two conclusions:

- from the point of view of external behaviour, organizations with higher competitive power and high-skill activities have higher organizational leadership capability;
- and from the point of view of internal behaviour, groups of employees with higher extrinsic job satisfaction have higher organizational leadership capability.

In addition, this investigation of the preliminary relationship between the capability of organizational leadership and organizational performance also highlighted two conclusions:

- from the point of view of financial performance, organizations with higher organizational leadership capability have higher performance measured using the financial performance measures ROS, VAIC, VAHU and STVA;
- and from the point of view of non-financial performance, organizations with higher organizational leadership capability perform better in terms of corporate social responsibility.

According to the results of the exploratory study for the preliminary relationship between the capability of organizational leadership and organizational effectiveness some managerial implications are also proposed:

- it is important to develop leadership and management knowledge and skills among all organizational members;
- it is necessary to fulfil and satisfy not only one or some or most of the extrinsic facets of job satisfaction, but all of them (none of them is less important);
- the performance monitoring system design should include, besides traditional financial performance indicators, also indicators that denote value added via intellectual capital;
- in order to increase the balance (adaptation) between the organization and its external environment, it is important to develop the capability to monitor different external stakeholders groups;
- and in order to improve organizational functioning in terms of organizational leadership capability, it is important to develop social responsibility towards internal stakeholders of the organization.

Two important considerations came out of this part of the investigation. First, that organizational leadership capability has a relationship with organizational functioning as well as with organizational performance. This suggests that organizational leadership capability as a phenomenon is a link between

organizational functioning and organizational performance. Second, the propositions that were set in this part of the investigation are useful in guiding future investigations of the phenomenon of the organizational leadership capability.

### **Limitations and recommendations for future research**

The theoretical part of the current dissertation developed the conceptual framework and measurement framework for organizational leadership capability, but certainly not all aspects associated with the phenomenon of organizational leadership capability were deeply discussed. This includes the concepts of organizational structure, organizational innovation and the learning organization. However, organizational leadership capability reflects important aspects of organizational design – how organizations come to acquire a particular structure, and the principles of an ideal organizational structure. It also reflects the innovative ability of organizations to change the strategy and structure that shape capabilities for adapting and evolving in uncertain turbulent environments. In addition, it reflects organizational knowledge created via processes of organizational learning, which secure the success of organizations. Future investigations in the abovementioned fields could expand our understanding and interpretation of the phenomenon of organizational leadership capability.

In the empirical part of the dissertation, the measurement tool was developed within service-oriented organizations; only one industrial organization participated in this development. Respondents from this organization had been chosen only from among managers and specialists. Therefore, this is not sufficient to confirm the validity of the developed measurement tool for production-oriented organizations and is not applicable for those organizations. In order to confirm the validity of the measurement tool for production-oriented organizations, the measurement tool should be tested separately in organizations in production-oriented industries.

The other limiting factor of the developed measurement tool deals with national/cultural issues. The statements of the measurement tool were designed and tested within the context of the Estonian culture. The nature of organizational leadership may be different in different cultures and this may directly influence interpretations of the statements in the developed measurement tool. Misalignments in interpretations could arise from differences in power distance, uncertainty avoidance and communication between and across organizational levels in different cultures. Also, the statements of the measurement tool should not be translated into other languages only, but should be adapted via a separate investigation within the context of the single culture and language. Therefore, a separate investigation should be performed before implementing the measurement tool of organizational leadership capability in other national/cultural communities.

The pattern of organizational leadership factors in interactions that determine the strength of organizational leadership capability was identified using a sample of Estonian financial service organizations. The results of the factor pattern in interactions are only valid in the Estonian financial service context. This is caused by two reasons: the financial service industry in Estonia is consolidated and the number of organizations is small in this sector; and the Estonian market itself is also small. Future investigations carried out in larger markets and also in other services could give different results, which expands our knowledge of sector and market specifics.

The results of the exploratory study about the relationship between organizational leadership capability and organizational effectiveness are only preliminary. This is due to the small number of organizations participating in the investigations in this study. However, the propositions that were set for this exploratory study are useful for future investigations of the phenomenon of organizational leadership capability. Also, the results concerning the relationship between organizational leadership capability and different aspects of organizational effectiveness offer guidance for future investigations in this field.

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## **APPENDIXES**



## Appendix I. Final Questionnaire of Organizational Leadership Capability

Hea vastaja,

Minu nimi on Kurmet Kivipõld ja olen Tartu Ülikooli majandusteaduskonna doktorant. Minu uurimistöö teemaks on “Organisatsioonisiseste juhtimisoskuste ülekande seaduspärasused Eesti organisatsioonide näitel”, milline kuulub intellektuaalse kapitali ja teadmusjuhtimise valdkonda. Oma uuringu edukaks valmimiseks palun Sinu lahketa abi alljärgneva küsimustiku täitmisel.

Käesoleva küsimustiku eesmärgiks on mõõta organisatsioonilist eestvedamist ehk organisatsiooni tervikliku kollektiivse juhtimise võimekust Teie organisatsioonis. Vastamine nimetatud küsimustikule on anonüümne ja see võtab aega orienteeruvalt 10 min. Algandmed, millised saadakse küsitluse käigus, on täies mahus kättesaadavad ainult ..... töötajatele. Töödeldud uuringu tulemuste avaldamisel arvestatakse rangelt ..... võimaliku sooviga ..... nime mitte avaldada. Samas võivad uuringu tulemused abistada ..... oma töökeskkonna täiustamisel ja tulemuslikkuse suurendamisel. Samuti edastatakse üks eksemplar läbiviidud uuringust nii paber kandjal kui ka elektroonsel kujul .....

Täna Sind osutatud abi eest!

### I OSA

#### 1. Meil on arusaadavad, kõigile teadaolevad tegevusplaanid ja -kavad (äristrateegia)

ei ole    1            2            3            4            5            6            7            olen täiesti nõus  
üldse nõus

#### 2. Meil on seatud nii peaesmärgid kui vahe-esmärgid

ei ole    1            2            3            4            5            6            7            olen täiesti nõus  
üldse nõus

#### 3. Minu isiklikud eesmärgid ühilduvad organisatsiooni pikaajaliste eesmärkidega

ei ole    1            2            3            4            5            6            7            olen täiesti nõus  
üldse nõus

#### 4. Osalen aktiivselt meie eesmärkide seadmise ja nende elluviimise kavade kujundamises

ei ole    1            2            3            4            5            6            7            olen täiesti nõus  
üldse nõus

### II OSA

#### 1. Suhtleme kaastöötajatega ka tööväliselt

üldse mitte    1            2            3            4            5            6            7            väga tihti

#### 2. Meie organisatsioonis korraldatakse tööväliseid ühisüritusi

üldse mitte    1            2            3            4            5            6            7            väga tihti

#### 3. Meie organisatsioonis korraldatakse tööga seotud ühisüritusi

üldse mitte    1            2            3            4            5            6            7            väga tihti

**4. Meie organisatsioonis on kohad (puhkenurgad), kus käime koos, et suhelda oma kaastöötajatega**

ei ole nõus 1 2 3 4 5 6 7 olen nõus

**III OSA**

**1. Meil tööl suhtutakse üksteisesse kui võrdsetesse**

Ei ole 1 2 3 4 5 6 7 olen täiesti nõus  
üldse nõus

**2. Meil on kõigil töötajatel piisavalt tegevusvabadust**

Ei ole 1 2 3 4 5 6 7 olen täiesti nõus  
üldse nõus

**3. Meil toimub tähtsate otsuste vastuvõtmine ühise arutelu käigus**

Ei ole 1 2 3 4 5 6 7 olen täiesti nõus  
üldse nõus

**4. Otsuste vastuvõtmisel on meil määravad kogemused ja pädevus, mitte ametipositsioon**

Ei ole 1 2 3 4 5 6 7 olen täiesti nõus  
üldse nõus

**IV OSA**

**1. Arvan, et meie kontrollmeetodid on õiglased**

ei ole 1 2 3 4 5 6 7 olen täiesti nõus  
üldse nõus

**2. Heade tulemuste saavutamist märgatakse**

ei ole 1 2 3 4 5 6 7 olen täiesti nõus  
üldse nõus

**3. Heade tulemuste eest tunnustatakse piisavalt**

ei ole 1 2 3 4 5 6 7 olen täiesti nõus  
üldse nõus

**4. Meil arutavad alluvad ja juhid, mida töötajad ootavad organisatsioonilt**

ei ole 1 2 3 4 5 6 7 olen täiesti nõus  
üldse nõus

**V OSA**

**1. Meie organisatsioon rakendab kõiki töötajate oskusi ja võimeid**

ei ole 1 2 3 4 5 6 7 olen täiesti nõus  
üldse nõus

**2. Meie organisatsioon pakub häid arenguvõimalusi**

ei ole 1 2 3 4 5 6 7 olen täiesti nõus  
üldse nõus

**3. Meie organisatsioon on edumeelne**

ei ole 1 2 3 4 5 6 7 olen täiesti nõus  
üldse nõus

**4. Meie organisatsioon tegeleb töö tulemuslikkuse tõstmisega**

ei ole 1 2 3 4 5 6 7 olen täiesti nõus  
üldse nõus

**5. Meie organisatsioon on edukas**

ei ole 1 2 3 4 5 6 7 olen täiesti nõus  
üldse nõus

ei ole	1	2	3	4	5	6	7	olen täiesti
üldse nõus								nõus

### Alignment and cohesion (X<sub>1</sub>)

- |                   |  |
|-------------------|--|
| X <sub>1,8</sub>  | We have a common understanding and knowledge of operational plans and programmes (business strategy) |
| X <sub>1,9</sub>  | We have set the main purpose and interim objectives  |
| X <sub>1,10</sub> | My personal objectives collide with the long-term objectives of the company                          |
| X <sub>1,11</sub> | I am actively involved in setting our objectives and putting them into practice                      |

X <sub>2,7</sub>	We socialize with our co-workers after business hours
X <sub>2,8</sub>	Our organization arranges gatherings that are not work related*
X <sub>2,9</sub>	Our organization arranges work related gatherings*
X <sub>2,11</sub>	We have restrooms in our organization, where we gather to socialize with our co-workers

X <sub>3,2</sub>	We are regarded as equals at work
X <sub>3,3</sub>	All of our employees have a sufficient degree of latitude
X <sub>3,4</sub>	We make important decisions using the process of common discussion*
X <sub>3,5</sub>	In making decisions we take into consideration expertise and competence not position*

X <sub>4,4</sub>	I consider our control methods to be fair
X <sub>4,8</sub>	Good results are noticed
X <sub>4,9</sub>	Good results are acknowledged enough
X <sub>4,11</sub>	In our organization employees and employers discuss together the expectations of employees

Y <sub>1</sub>	Our organization uses the full abilities and potential of its workers
Y <sub>2</sub>	Our organization offers good developmental opportunities
Y <sub>3</sub>	Our organization is forward-looking
Y <sub>4</sub>	Our organization deals with increasing work performances
Y <sub>5</sub>	Our organization is successful
Y <sub>6</sub>	Our organization successfully withstands competition in the future

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## Appendix 2. Financial Indicators of Financial Service Organizations

Indicator	Change in sales ( $TS_t/TS_{t-n}$ )			
Organization	2004	2005	2006	2007
n1=73	1.104	1.287	1.349	1.494
n2=111	1.090	1.157	1.520	1.575
n3=58	1.205	1.220	1.490	1.784
n4=40	1.175	1.385	1.882	1.470
n5=60	1.121	1.551	1.585	1.201
n6=120	0.822	0.940	1.324	1.058
n7=40	1.112	1.255	1.108	1.048
n8=53	1.306	1.076	1.101	1.016
Indicator	Change in profit ( $\Pi_t/\Pi_{t-n}$ )			
n1=73	0.846	1.273	0.904	2.308
n2=111	0.810	1.222	1.701	1.810
n3=58	1.473	1.216	1.236	1.610
n4=40	1.247	1.620	1.926	1.932
n5=60	1.486	3.141	1.539	1.093
n6=120	1.242	0.769	0.967	1.067
n7=40	1.858	2.192	0.658	0.877
n8=53	2.474	0.943	0.691	0.950
Indicator	Return on sales (ROS)			
n1=73	39.758	39.311	26.329	40.681
n2=111	25.945	27.382	30.627	35.189
n3=58	19.221	19.158	15.894	14.343
n4=40	20.493	23.973	24.527	32.228
n5=60	15.617	31.625	30.702	27.936
n6=120	53.871	44.060	32.180	32.437
n7=40	13.153	22.974	13.639	11.413
n8=53	18.062	15.829	9.938	9.292
Indicator	Value added intellectual capital coefficient (VAIC)			
n1=73	6.293	6.359	4.836	6.491
n2=111	5.034	4.869	5.257	5.973
n3=58	4.120	4.047	3.472	3.950
n4=40	3.884	4.311	4.749	5.223
n5=60	3.888	5.100	4.950	4.524
n6=120	15.512	11.434	8.102	7.447
n7=40	3.495	5.451	3.894	3.345
n8=53	3.728	3.434	2.809	2.676
Indicator	Value added human capital coefficient (VAHU)			
n1=73	3.585	3.786	2.993	4.370
n2=111	2.527	2.564	3.152	3.948
n3=58	2.838	2.814	2.410	2.954
n4=40	1.931	2.178	2.701	3.441
n5=60	1.657	2.254	2.464	2.406
n6=120	13.225	9.328	6.494	5.815
n7=40	2.436	4.008	2.802	2.393
n8=53	2.441	2.323	1.890	1.835



Indicator	Value added structural capital coefficient (STVA)			
Organization	2004	2005	2006	2007
n1=73	0.721	0.736	0.666	0.771
n2=111	0.604	0.610	0.683	0.747
n3=58	0.648	0.645	0.585	0.661
n4=40	0.482	0.541	0.630	0.709
n5=60	0.397	0.556	0.594	0.584
n6=120	0.924	0.893	0.846	0.828
n7=40	0.589	0.750	0.643	0.582
n8=53	0.590	0.570	0.471	0.455
Indicator	Value added capital coefficient (VACA)			
n1=73	1.988	1.837	1.178	1.349
n2=111	1.902	1.695	1.423	1.279
n3=58	0.635	0.588	0.477	0.336
n4=40	1.471	1.592	1.418	1.072
n5=60	1.834	2.289	1.892	1.533
n6=120	1.363	1.214	0.762	0.805
n7=40	0.469	0.693	0.449	0.370
n8=53	0.696	0.542	0.448	0.386

Source: Author's calculation on the bases of the annual reports

### Appendix 3. Return on Assets (ROA) of Financial Service Organizations

Organization	2000	2001	2002	2003	2004	2005	2006	2007
n1=73	4.273	4.733	4.027	3.845	2.623	2.432	1.705	3.157
n2=111	–	0.972	1.942	2.336	1.496	1.466	1.859	2.522
n3=58	0.743	0.678	0.819	0.791	0.852	0.746	0.714	0.881
n4=40	–	0.840	0.946	1.328	1.279	1.474	1.796	2.174
n5=60	0.887	0.713	0.565	0.733	0.895	1.984	2.260	2.023
n6=120	3.840	4.967	4.160	2.940	3.677	2.650	2.201	2.122
n7=40	–	3.815	3.525	9.667	14.138	21.218	10.609	8.259
n8=53	11.984	7.046	6.075	10.074	17.829	12.759	7.280	5.835

Source: Author's calculation on the bases of the annual reports

## SUMMARY IN ESTONIAN

### Organisatsioonilise eestvedamise võimekus ja selle hindamine eesti teenindusorganisatsioonide näitel

#### Töö aktuaalsus

Kaasaegses majanduskeskkonnas, kus organisatsioonide edukus sõltub üha suuremal määral nii organisatsiooniliikmete kui ka organisatsiooni tegevuslikku mustrisse (struktuuri) salvestunud oskustest ja teadmistest, on eestvedamine roll oluliselt kasvanud. Eestvedamist sellises kontekstis käsitletakse olulise organisatsioonilise ressursina, mille abil kindlustatakse organisatsioonide tulemuslikkus ja edukus nii lühi- kui pikas perspektiivis.

Traditsiooniliselt on eestvedamist käsitletud kui üksikisiku (liidri) käitumuslikku mustrit organisatsiooniliikmete tegevuse mõjutamisel kindlustamaks organisatsiooniliste eesmärkide saavutamist. Edvinsson (2002) ja Pasternack *et al* (2001) iseloomustavad eestvedamist nendest käsitlustest kui ühedimensioonilist, nimetades seda “kangelaslikuks eestvedamiseks”, milline ei ole piisav tagamaks organisatsioonide edukat toimimist kaasaegses majanduskeskkonnas. Nad rõhutavad, et eestvedamine on mitmedimensiooniline, haarates endasse organisatsiooni erinevad tasandid ja kihid, salvestununa organisatsiooni terviklikku tegevusmustrisse (struktuuri) ja muutunud selle läbi organisatsiooni strateegiliseks varaks. Vastavalt sellele on eestvedamisel lisaks traditsioonilistes käsitlustes toodud üksikisiku (liidri) käitumuslikule iseloomule ka kollektiivne iseloom.

Oma uuringus Hofmann ja Jones (2005) tõestasid, et eestvedamisel on “kollektiivse persona” (i.k. *collective personality*) omadused, millised avalduvad erinevatel kollektiivsuse tasanditel. Mitmed uurijad on viimasel kümnendil käsitlenud eestvedamise kollektiivset fenomeni nii meeskonna kui organisatsiooni tasandil, kasutades selleks vägagi erinevaid käsitlusi ja termineid: kollektiivne eestvedamine (Hiller *et al*, 2006; Hunt & Ropo, 1997; Dachler, 1992); jagatud eestvedamine (i.k. *distributed or shared leadership*) (Day *et al*, 2004; Gronn, 2002); kaskaadne eestvedamine (Aviolo & Bass, 1995); organisatsiooni eestvedamise võime (i.k. *organization's capacity for leadership*) (O'Connor & Quinn, 2004); strateegiline eestvedamine (Morrill, 2007; Denis *et al*, 2001); institutsionaalne eestvedamine (Pasternack *et al*, 2001); orgaaniline eestvedamine (Avery, 2006); kompleksne eestvedamine (Marion & Uhl-Bien, 2001) ja intelligentne eestvedamine (Sydänmaanlakka, 2003).

Kõik eelpoolnimetatud autorid toovad välja kollektiivse eestvedamise kui ühe olulisema organisatsioonide käsutuses oleva ressursi, millega otseselt kujundatakse organisatsioonide tulemuslikkust. Vastavalt strateegilise juhtimise käsitlustele on organisatsioonide ressursside kasutus, nende paigutus ja konfiguratsioonid otseselt seotud organisatsioonide tulemuslikkusega. Strateegiline

juhtimine toob välja ressursside olulisuse organisatsioonilise võimekuse (i.k. *organizational capability*) kontekstis, käsitledes neid kui organisatsioonide käsutuses olevat unikaalset ja otsustavat vara, mille abil organisatsioonid loovad endale konkurentsieelise ning kindlustavad enda edukuse dünaamilises majanduskeskkonnas. Nii toovad Grant (1996), Collis (1994), Amit ja Schoemaker (1993) välja, et organisatsiooniline võimekus on organisatsiooni immateriaalne vara, mille moodustavad organisatsiooniliikmete oskused ja teadmised koos organisatsiooniliste protsessidega, olles salvestunud organisatsiooni terviklikku käitumismustrisse. Sellest vaatepunktist lähtuvalt kerkib eestvedamine esile organisatsioonilise võimekusena, mis integreerib organisatsiooniliikmete oskused ja teadmised kooskõlas nende tegevusliku kontekstiga unikaalseteks organisatsioonilisteks tuumkompetentsideks.

Kollektiivne eestvedamine, olles salvestunud organisatsiooni terviklikku tegevusmustrisse, on keerukas ja kompleksne fenomen. Erinevad uurijad on käsitlenud seda fenomeni väga erinevatest teoreetilistest seisukohtadest lähtuvalt, milledeks on: traditsioonilised eestvedamise käsitlused (Yammarino *et al*, 2008; Yukl, 2008; Avolio & Bass, 1995); strateegilise juhtimise käsitlused (Morrill, 2007; Denis *et al*, 2001; Pasternack *et al*, 2001); kompleksse teooria (Stacey, 2010; Avery, 2006; Osborn *et al*, 2002; Marion & Uhl-Bien, 2001). Kõik need teoreetilised käsitlused avavad erinevaid ja olulisi külgi tema omadustest. Siiski ei võimalda nad uurida kollektiivse eestvedamise olemuse kompleksset iseloomu tervikuna. Eeltoodust ajendatuna on käesoleva doktoritöö motivatsiooniks olnud teoreetilise raamistiku ja sellest lähtuva mõõtmis-instrumenti väljatöötamine. See võimaldab uurida kollektiivse eestvedamise fenomeni organisatsioonilisel tasandil, kus erinevad kollektiivse eestvedamise olulisemad omadused avalduvad.

Antud doktoritöö tähtsus seisneb peamiselt kahes põhiaspektis: esiteks, organisatsioonilise eestvedamise võimekuse teoreetilise raamistiku loomises ning teiseks, mõõtmisinstrumenti väljatöötamises organisatsioonilise eestvedamise võimekuse hindamiseks organisatsioonides. Teoreetiline raamistik ise koosneb kahest eraldiseisvast – kontseptuaalsest ja mõõtmise teoreetilisest raamistikust. Kontseptuaalne raamistik süstematiseerib olemasolevad teooriad ja loob nende baasil teoreetilise käsitluse, milline võimaldab avada kollektiivse eestvedamise organisatsioonilise olemuse ning mis ise avaldub organisatsioonilise eestvedamise võimekusena. Samas toob kontseptuaalne raamistik välja organisatsioonilise eestvedamise võimekuse põhikarakteristikud, olles baasiks tema mõõtmisraamistiku väljatöötamisel.

Organisatsioonilise eestvedamise võimekuse teoreetiline mõõtmisraamistik on välja töötatud vastavuses eelnevalt loodud kontseptuaalsele raamistikule ja järgib süsteemiteooria põhiseisukohti. Kui Capra (1996:29) rõhutab, et süsteemi tervikkäitumine on seletatav peamiselt süsteemi toimimise põhiprintsiipidega, mitte teda moodustavate üksikosade summaarse toimega, siis Jackson (2007:13) lisab sinna ka süsteemi osade vahelised seosed koos nende protsessipõhise dünaamikaga. Valdavalt olemasolevad mõõtmisraamistikud keskenduvad iseseisvatele süsteemi osadele või siis ainult süsteemi toimimise põhiprintsiipidele.

pidele, mis doktoritöö autori arvates ei ole piisav terviksüsteemis toimuvate protsesside hindamiseks. Näiteks keskendub Reynoldsi (1987) hajuskäitumise mudel süsteemi toimimise põhiprintsiipidele, samas nende omavaheline seotus on jäänud fookusest välja.

Doktoritöö empiiriline osa keskendub organisatsioonilise eestvedamise võimekuse hindamise mõõtmisinstrumenti väljatöötamisele. Oluline on siin rõhutada, et eestvedamise kollektiivset fenomeni on kvalitatiivselt ainult üksikutel juhtudel uuritud. Põhjuseks on doktoritöö autori arvates sobivate mõõteinstrumentide puudus. Nii näiteks kasutasid Hiller *et al* (2006) ja Hofmann & Jones (2005) kollektiivse eestvedamise fenomeni uurimiseks mõõtmisinstrumente, millised on disainitud teistsuguste nähtuste uurimiseks. Hiller *et al* (2006) kasutasid G. Yukli ja R. Lepsingeri poolt 1990 a valideeritud “Juhtide Tegevuse Mõõdikut” (i.k. *Managerial Practices Survey*) ning Hofmann & Jones (2005) kombineerisid oma uuringus kahte mõõtmisinstrumenti: Bassi ja Avolio “Mitmefaktorilise Eestvedamise Küsimustikku” (i.k. *Multifactor Leadership Questionnaire*) aastast 1995 ja Golbergi 1992 a “Suure Viisiku” mõõdikut (i.k. *Big Five*). Samas erinevalt eelnimetatud uurijatest kasutasid Pasternack *et al* (2001) endi poolt väljatöötatud “Institutsionaalse Eestvedamise Koeffitsiendi” mõõdikut (i.k. *Intitutional Leadership Quotient*), milline on disainitud eestvedamise mõõtmiseks organisatsioonilisel tasandil ja seega palju sobivam kollektiivse eestvedamise hindamiseks. Siiski nende väljatöötatud mõõdik võimaldab hinnata kollektiivset eestvedamist ainult juhtide tasanditel, mis ei ole piisav mõõtmaks organisatsiooni terviksüsteemi salvestunud eestvedamise võimekust.

Lisaks on käesolevas doktoritöös teostatud avastusliku iseloomuga otsinguline uuring (i.k. *exploratory study*) organisatsioonilise eestvedamise võimekuse karakteristikute väljatoomiseks. Selleks hinnatakse organisatsioonilise eestvedamise võimekust Eesti teenindussektori organisatsioonides käesolevas doktoritöös väljatöötatud mõõtmise instrumentiga. Keskendumine teenindusorganisatsioonidele on põhjendatud nende spetsiifikaga, nimelt erinevalt tootmisettevõtetest on organisatsiooni liikmete oskuste ja teadmiste osakaal kogu organisatsiooni käsutuses olevatest ressurssidest teenindusorganisatsioonides suurem. Nimetatud uuring toob välja organisatsioonilise eestvedamise võimekuse seotuse nii organisatsiooni funktsioneerimise efektiivsuse kui ka organisatsiooni tulemuslikkusega, mis on ka vastavuses teaduskirjanduses toodud traditsioonilise eestvedamise põhiomadustega.

## **Uurimuse eesmärk ja ülesanded**

Doktoritöö eesmärgiks on organisatsioonilise eestvedamise võimekuse mõõtmine ja hindamine näitlikustades seda tema organisatsioonilise efektiivsuse seosega Eesti teenindusorganisatsioonide näitel. Kui nimetatud eesmärgi esimene pool on pühendatud organisatsioonilise eestvedamise võimekuse hindamise meetodi väljatöötamisele, siis teine pool illustreerib seda läbi tema seotuse

organisatsioonilise efektiivsusega. Seatud eesmärgi saavutamiseks püstitatakse järgnevad uurimisülesanded:

1. Organisatsioonilise eestvedamise võimekuse kontseptuaalse raamistiku väljatöötamine;
2. Organisatsioonilise eestvedamise võimekuse mõõtmisraamistiku väljatöötamine ja uurimise hüpoteeside püstitamine tema omaduste hindamiseks;
3. Mõõtmisinstrumenti disainimine organisatsioonilise eestvedamise võimekuse hindamiseks;
4. Organisatsioonilise eestvedamise võimekuse hindamine;
5. Uurimisvaidete püstitamine organisatsioonilise eestvedamise võimekuse ja organisatsiooni efektiivsuse vaheliste seoste uurimiseks;
6. Otsingulise uuringu läbiviimine, toomaks välja esmaseid organisatsioonilise eestvedamise võimekuse ja organisatsiooni efektiivsuse vahelisi seoseid;
7. Uurimustulemuste põhjal tuua välja järeldused organisatsioonilise eestvedamise võimekuse parendamiseks organisatsioonides.

## Töö uudsus

Kollektiivse eestvedamise fenomen on uus ja moodne valdkond juhtimisteaduses, olles tõusnud uurijate tähelepanu keskmesse viimasel aastakümnel. Peamiselt on uuringud kollektiivse eestvedamise valdkonnas keskendunud grupi või meeskonna tasandile (nt Hiller *et al*, 2006; Day *et al*, 2004; Zaccaro *et al*, 2001). Organisatsiooni tasandil on valdavaks tippjuhi või tipp-juhtkonna kesksed eestvedamise käsitlused (nt Garcia-Morales *et al*, 2008; Vera & Grossan, 2004; Boal & Hooijberg, 2000). Mõningad autorid (nt Osborn & Hunt, 2007; Lichtenstein *et al*, 2006; Marion & Uhl-Bien, 2001) on eestvedamist käsitlenud organisatsiooni kui terviksüsteemi tasandil vastavuses kompleksuse teooria seisukohtadele. Sellest hoolimata ei ole varasemad uuringud käsitlenud eestvedamist kui organisatsiooni terviksüsteemi salvestunud organisatsioonilist võimekust (i.k. *organizational capability*), milline on üheks kriitilisemaks organisatsiooni strateegiliseks varaks selleks, et olla edukas tänapäevases moodsas majanduskeskkonnas.

Käesolev doktoritöö on keskendunud kollektiivse eestvedamise kui organisatsiooni terviksüsteemi salvestunud võimekuse uurimisele, defineerides seda *organisatsioonilise eestvedamise võimekusena*. Doktoritöö uudsuseks teoreetilises plaanis on nii organisatsioonilise eestvedamise võimekuse kontseptuaalse kui ka tema mõõtmise raamistiku loomine. Mõlemad teoreetilised raamistikud koos loovad teoreetilise baasi organisatsioonilise eestvedamise võimekuse fenomeni uurimiseks ja hindamiseks. Kontseptuaalne raamistik süstematiseerib erinevad kollektiivse eestvedamise käsitlused ja integreerib koos süsteemiteooria ja strateegilisest juhtimisest tuntud ressursipõhise käsitlusega (i.k. *resource-based view*) ühtseks tervikkäsitluseks. Lisaks sellele, et kontseptuaalne raamistik avab ja aitab mõista organisatsioonilise eestvedamise võimekuse fenomeni, toob ta välja ka karakteristikud mõõtmisraamistiku loomiseks.

Mõõtmisraamistik lähtub süsteemiteooriast ja toob välja organisatsioonilise eestvedamise võimekuse mõõtmiseks olulised teoreetilised seisukohad. Nendest teoreetilistest seisukohtadest lähtuvalt kirjeldab mõõtmisraamistik organisatsioonilise eestvedamise põhi- ja alamfaktorid, grupeerides nad omakorda kahte organisatsioonilisse käitumuslikku dimensiooni (organisatsiooniline orientatsioon ja adapteerumine). Samuti defineerib nimetatud raamistik neist kahest käitumuslikust dimensioonist lähtuvalt põhifaktoritevahelised interaktsioonid. Vastavalt loodud mõõtmisraamistikule avaldub organisatsioonilise eestvedamise võimekus vastastikustes mõjudes organisatsioonilise eestvedamise põhifaktorite vahel.

Täiendavalt on doktoritöö uudsuseks teoreetilise baasi loomine organisatsioonilise eestvedamise võimekuse ja organisatsiooni toimimise efektiivsuse vaheliste seoste uurimiseks. Selleks, toetudes teoreetilisele kirjandusele ning sealt tulenevatele argumentidele, on välja töötatud uurimisväited, millised on suunatud paralleelselt nii organisatsiooni funktsioneerimisele kui ka tema tulemuslikkusele. Varasemad eestvedamise uuringud ei ole käsitlenud efektiivsust korraga organisatsiooni funktsioneerimise ja tulemuslikkuse aspektis. Nii on eelnevad uuringud põhiliselt keskendunud kas grupi funktsioneerimise efektiivsusele traditsioonilise eestvedamise kontekstis või siis äri tulemuslikkusele strateegilise eestvedamise kontekstis.

Teine doktoritöö uudsus seisneb organisatsioonilise eestvedamise võimekuse mõõtmise instrumendi väljatöötamises. See on äärmiselt oluline, kuna organisatsiooni tegevusmustrisse salvestunud kollektiivse eestvedamise fenomeni uurimiseks sobiv mõõtmisinstrument siiani puudus. Kuigi Pasternack *et al* (2001) poolt loodud "Institutsionaalse Eestvedamise Koefitsiendi" (i.k. *Intitutional Leadership Quotient*) mõõtmisinstrument võimaldab hinnata eestvedamise salvestunud organisatsioonilist fenomeni, esineb sellel ka rida puudusi. Esiteks on nende mõõtmise instrument disainitud ja ka valideeritud ainult juhtide, mitte kõigi organisatsiooniliikmete tasandil. Teiseks on see suhteliselt pikk, koosnedes 65-st väitest, millised on jaotunud 12-sse erinevasse faktorisse. Kolmandaks ei arvesta nende mõõtmisinstrument faktorite omavaheliste vastastikuste mõjudega, millised vastavuses süsteemiteooria seisukohtadele, on aga olulised organisatsiooni kui terviksüsteemi toime hindamisel.

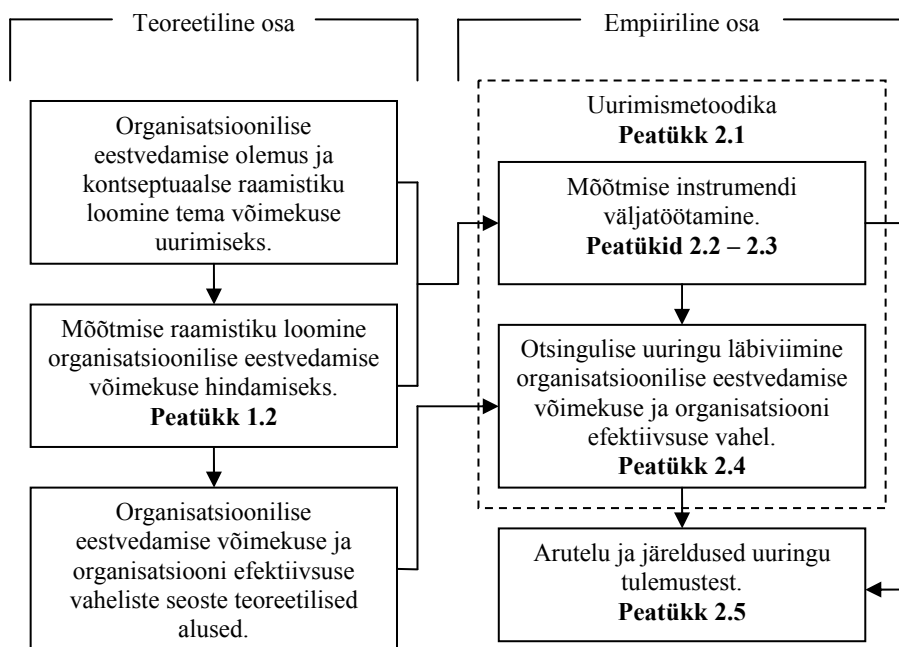
Käesolevas doktoritöös väljatöötatud Organisatsioonilise Eestvedamise Võimekuse küsimustik (i.k. *Questionnaire of Organizational Leadership Capability*) on oluline nii akadeemilise kui ka organisatsioonide praktilise töö seisukohtadelt. Akadeemilises kasutuses võimaldab see mõõtmise instrument uurida organisatsioonilise eestvedamise võimekuse fenomeni ja selle seotust organisatsiooni toimimise erinevate aspektidega – organisatsiooni efektiivsus ja tõhusus, organisatsiooni ülesehitus ja innovatsioon jms. Samas on väljatöötatud mõõtmise instrument kompaktne ja praktikas lihtsalt kasutatav, koosnedes kokku

22-st väitest, mis võimaldab koguda algandmed uuritavatest organisatsioonidest väikese ajakuluga. Samuti võimaldab see mõõtmisinstrument hinnata organisatsioone nii terviklikult kui ka erinevate tasandite, gruppide, osakondade või

üksuste lõikes. Selliselt saadud tulemused ja nende oskuslik tõlgendamine annavad olulist lisaväärtust ka juhtimispraktikutele nende igapäevases tegevuses organisatsioonide arendamise protsessis.

### Töö ülesehitus ja teoreetiline tagapõhi

Käesolev doktoritöö koosneb kahest osast: esimene neist loob teoreetilise ja kontseptuaalse baasi organisatsioonilise eestvedamise võimekuse hindamiseks ning teine seisneb selle hindamiseks mõõtmisinstrumendi väljatöötamises ja selle kasutamises otsingulise uuringu läbiviimisel. Otsinguline uuring toob välja esmased seosed organisatsioonilise eestvedamise võimekuse ja organisatsioonilise efektiivsuse vahel. Doktoritöö ülesehitus oma erinevate peatükkidega on ära toodud joonisel 1.



**Joonis 1.** Doktoritöö ülesehitus

Allikas: Autori koostatud

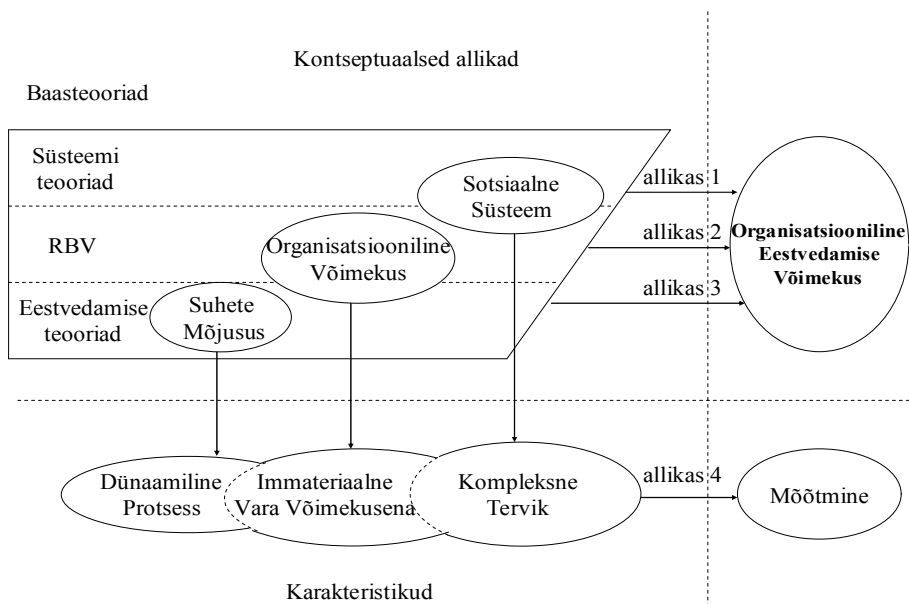
Doktoritöö teoreetiline osa analüüsib olemasolevale teaduskirjandusele ja teostatud uuringutele tuginedes kollektiivse eestvedamise toimimise mehhanisme ühelt poolt, teiselt poolt süstematiseerib sealt tulevad teadmised ja integreerib nad organisatsioonilise eestvedamise võimekuse kontseptuaalsesse ja tema mõõtmise teoreetilisse raamistikku. Toetudes teoreetilisele raamistikule

toob doktoritöö välja ja süstematiseerib teoreetilised alused organisatsioonilise eestvedamise võimekuse ja organisatsiooni efektiivse toimimise vaheliste seoste uurimiseks.

Doktoritöö teoreetilise osa esimeses peatükis luuakse organisatsioonilise eestvedamise võimekuse kontseptuaalne raamistik. Vastavalt sellele on eestvedamine organisatsiooni terviküsteemi salvestunud fenomen ning antud töö autor defineerib seda kui *kollektiivset võimekust registreerida ja korrigeerida oma tegevusi vastavuses väliskeskkonna muutustele, hoides fookuses organisatsiooni põhieesmärke*. Kollektiivse eestvedamise omadused tulevad traditsioonilisest eestvedamisest, strateegilisest eestvedamisest ja kompleksuse teooriast ning nad on integreeritud organisatsioonilise eestvedamise võimekuse kontseptuaalsesse raamistikku. Vastavalt sellele käsitletakse eestvedamist enamikes traditsioonilistes eestvedamise kontseptsioonides indiviidide vaheliste (liider – järgija(d)) mõjutusprotsessina (Northouse, 2007). Strateegilise eestvedamise käsitlused lisavad sinna tippjuhi või tippjuhtkonna seotuse organisatsiooni kui tervikuga ja läbi selle ka nende mõjutuse tervele organisatsioonile (Bass, 2006; Boal & Hooijberg, 2000). Täiendatuna kompleksteooria seisukohtadega, on eestvedamine nähtus, mis “kerkib esile” (i.k. *emerges*) organisatsioonist kui tervikust, kantuna oma liikmete vastastikuste suhete mõjudest (Osborn & Hunt, 2007; Lichtenstein *et al*, 2006; Marion & Uhl-Bien, 2001). Nii väidab ka Stacy (2010:81), et eestvedamine on süsteemne fenomen, mis eksisteerib organisatsioonilises võrgustikus, kus erinevad indiviidid mõjutavad üksteist vastastikku.

Organisatsioonilise eestvedamise võimekuse kontseptuaalne raamistik ühendab endas kolme gruppi baasteooriaid (joonis 2), millest igaüks toob välja nimetatud fenomeni olulisemad omadused. Nii toovad eestvedamise teooriad välja suhete mõjususe (i.k. *power relationship*) (nt Galinsky *et al*, 2003; Keltner *et al*, 2003), millega on määratud kolme üksteisega seotud dünaamilise protsessi olemus. Nendeks on: organisatsiooniliikmete omavaheline seotus nendevahelistes suhetes; organisatsiooniliikmete seotus üksteisega organisatsioonilistes protsessides; organisatsiooniliikmete kollektiivne seotus nii sise- kui ka väliskeskkonnaga ja selle dünaamikaga.





**Joonis 2.** Organisatsioonilise eesvedamise võimekusele kontseptuaalse raamistiku loomine  
Allikas: Autori koostatud

Märkus: RBV – ressursipõhine vaade (i.k. *recourse-based view*)

Ressursipõhise vaate kontseptsioon lisab loodud kontseptuaalsesse raamistikku organisatsioonilise võimekuse (i.k. *organizational capability*) mõiste, tuues välja tema omadused ja eksisteerimise printsiibid. Organisatsioonilised võimekused, erinevalt ressursidest, ei ole käegakatsutavad ehk materiaalsed, vaid on eranditult immateriaalsed (Makadok, 2001). Samuti toovad mitmed autorid (nt McGee, 2006a; Makadok, 2001; Eisenhardt & Martin, 2000) välja, et erinevalt ressursidest on võimekused organisatsioonispetsiifilised, mitte ülekantavad teistesse organisatsioonidesse ja mitte jälgendatavad teiste organisatsioonide poolt. Lisaks sellele salvestuvad need võimekused organisatsiooni ülesehitusse ja tema protsessidesse (Makadok, 2001; Grant, 1996; Collis, 1994) kujundades sellega organisatsioonide tuumkompetentsid ja konkurentsieelise. Vastavalt intellektuaalse kapitali kontseptsioonile selgitavad Roos *et al* (1998) seda kui inimkapitali oskuste ja teadmiste ülekannet organisatsiooni struktuurse kapitali formeerumisse. Teece (2007) järgi on selles protsessis kesksel kohal koordinatsioonimehhanism, mille kandjaks on eestvedamine ja mis võimaldab organisatsioonil toimida innovaatsiliselt. Täiendavalt rõhutab Teece (2009), et moodsates teadmispõhistes organisatsioonides peab eestvedamine olema rakendunud organisatsiooni kõikidel tasanditel. Lähtuvalt nendest vaatepunktidest on eestvedamise poolt juhitud koordinatsioonimehhanism koos tema salvestumisega organisatsiooni tegevusmustrisse vaadeldav organisatsioonilise võimekusena.

Süsteemiteooriad täiendavad loodud kontseptuaalset raamistikku veel ühe olulise aspekti osas – organisatsiooni terviklikkuse ehk “persona” omadustega. Nii on Ulrich (1984) kirjeldanud organisatsioone kui elavaid sotsiaalseid süsteeme. Komplekssuse teooria, süsteemiteooria üks viimaseid arendusi, vaatleb organisatsioone kui kompleksseid adapteeruvaid süsteeme. Holland (1992) defineerib selliseid süsteeme dünaamilise agentide võrgustikena, kus agendid paralleelselt pidevalt tegutsedes ja reageerides korrastavad oma tegevust vastavuses teiste osalevate agentide tegevustele. Selliste süsteemide põhiomadusteks on iseorganiseerumine ja adapteeruv käitumine (Anderson, 1999; Morel & Ramanujam, 1999). Jackson (2007:115) toonitab, et adaptiivne käitumine selliste süsteemide puhul on liiga kitsapiiriline ning otstarbekam on seda vaadata areneva käitumisena. Need põhiomadused peegeldavadki süsteemi käitumise terviklikkust, mis kerkib esile organisatsiooniliikmete vahelistest vastastikustest seostest (Jackson, 2007) või siis organisatsiooni osade vahelistest vastastikustest seostest (Capra, 1996). Siit tulenevalt organisatsiooni kui süsteemi tervikkäitumine ilmneb mitte lihtsalt tema üksikosade summaarse toimena vaid hoopis nende üksikosade vastastikuste mõjude tulemusena.

Vastavalt organisatsiooni eestvedamise võimekuse kontseptuaalsele raamistikule eksisteerib eestvedamine läbi organisatsiooniliikmete vastastikuse mõjutuse pidevalt arenevas protsessis organisatsiooni kõigil tasanditel – indiviidi, grupi, organisatsiooni. See protsess koordineerib organisatsiooniliikmete oskuste ja teadmiste integreerumist organisatsioonilisteks võimekusteks ning nende salvestust organisatsiooni konkurentsieelist loovaks varaks. Samas organisatsioonisisese võrgustikus jaotunud ja sinna salvestunud eestvedamise võimekus avaldub organisatsiooni kui terviksüsteemi iseorganiseerumise võimes. Kõige sellega seoses vähenevad organisatsioonisisemed transaktsiooni kulud ja vahetu kontrolli vajadus ning suureneb organisatsiooniliikmete võimustamine ja organisatsiooni reageerimise võimekus väliskeskkonna muutustele.

Organisatsioonilise eestvedamise võimekuse teoreetilise mõõtmisraamistiku loomisel on lähtutud ühelt poolt kirjeldatud kontseptuaalsest raamistikust ja teiselt poolt kolmest olulisest mudelist. Nendest üks käsitleb eestvedamist (nim. institutsionaalne eestvedamine) organisatsioonilisel tasandil (Pasternack *et al*, 2001), teine organisatsiooni adaptiivset struktuuri (Fulmer, 2000) ja kolmas hajussüsteemi käitumisprintsipe (Reynolds, 1987). Organisatsioonilise eestvedamise võimekuse mõõtmisraamistik integreerib need kolm mudelit vastavuses kontseptuaalses raamistikus toodud komplekssuse teooria seisukohtadele.

Teises peatükis on organisatsioonilise eestvedamise võimekuse mõõtmise raamistik konstrueeritud kahedimensioonilisena ja kolmefaktorilisena (tabel 1). Lähtudes süsteemiteooria seisukohast, et süsteemi terviklik käitumine on seletatav pigem süsteemi toimimise põhiprintsiipidega kui seal olevate üksikosade summaarse toimega (Capra, 1996). See võimaldab taandada oma olemuselt keeruka (kõrge dimensioonilisusega) organisatsioonilise käitumise globaalsete parameetritega (madaldimensiooniliseks) organisatsiooniliseks käitumiseks. Sellest tulenevalt on süsteemi toimimise põhiprintsiibid mõõtmisraamistikus

esindatud kahe dimensiooniga (organisatsiooniline orientatsioon ja adaptatsioon), mida hinnatakse kolme iseseisva faktoriga. Esimene neist, organisatsiooniline orientatsioon, on määratud faktoriga – väline fookus ja sisene kontekst. Teine organisatsiooniline adapteerumine on aga määratud kahe faktoriga – organisatsioonisisene koostöövõrgustiku arhitektuur ja kontroll-tagasiside süsteem. Kaks alamfaktorit esindavad formaalseid ja mitteformaalseid seoseid organisatsioonisiseses koostöövõrgustikus. Formaalsed seosed alamfaktoriga tsentraliseeritusemäär ja mitteformaalsed seosed alamfaktoriga mitteformaalne kommunikatsioon.

**Tabel 1.** Organisatsioonilise eestvedamise võimekuse mõõtmisraamistiku faktorid ja dimensioonid

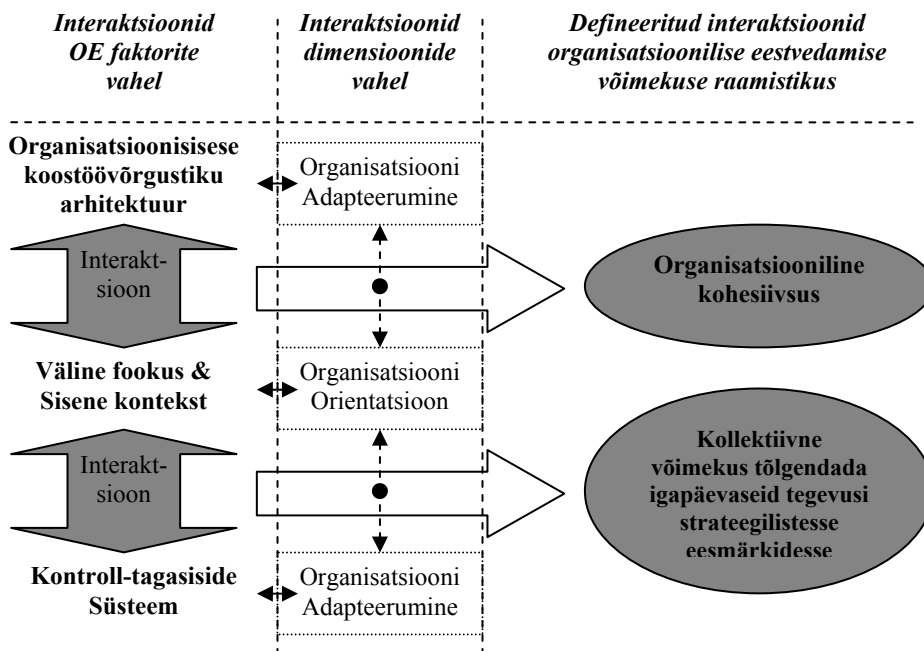
OEV dimensioonid	OEV faktorid	OEV alamfaktorid
Organisatsiooniline orientatsioon	Väline fookus ja sisene kontekst	
Organisatsiooniline adapteerumine	Organisatsioonisisene koostöövõrgustiku arhitektuur	Tsentraliseeritusemäär Kommunikatsioon (mitteformaalne)
	Kontroll-tagasiside süsteem	

Allikas: Autori koostatud

Märkus: *OEV – organisatsioonilise eestvedamise võimekus*

Komplekssuse teooria seisukohtadest lähtuvalt käsitleb loodud mõõtmisraamistik organisatsioone kui keerukaid väliskeskkonnale avatud ja tema mõjudega kohanemise süsteeme (i.k. *complex adaptive systems*). Komplekssed adapteeruvad süsteemid on oma olemuselt alati dünaamilised ja nende dünaamika on määratud nende sisemiste osade (elementide) vastastikuste mittelineaarsete seostega (Thietart & Forgues, 1995). Nii väidavad Morel ja Ramanujam (1999), et nende vastastikuste seoste kandjaks on organisatsioonisisest tagasisideprotsessid. Keskse kohal on siin positiivne ehk võimenduv tagasisideprotsess, milline haarab endasse mõlemad negatiivsed ehk reguleerivad tagasisideprotsessid ja seob nad kõigi organisatsiooniliste protsessidega erinevatel organisatsioonitasanditel üheks organisatsiooniliseks tervikprotsessiks. Siit ilmneb, et terviksüsteemi toime avaldub pigem süsteemi osade omavaheliste seoste kui eraldiseisvate osade endi otsese mõju läbi. Lisaks sellele on oluline veel osade omavaheline sobivus, mis võimaldab organisatsioonil paremini kohaneda muutlikus väliskeskkonnas ning olla tulemuslik ja edukas. Anderson (1999) väidab, et väliskeskkonna muutlikusega kohanev süsteem on mitte staatilises vaid dünaamilises tasakaaluolekus – “kaose äärel” (i.k. *edge of chaos*). Selline tasakaaluolek on aga määratud süsteemi osade endi vastastikuste mõjudega. Vastavalt eeltoodule avaldub organisatsioonilise eestvedamise võimekus organisatsiooni käitumislikku mustritse salvestunud organisatsioonilise eestvedamise põhiprintsiipe kirjeldavate dimensioonide

vastastikuste seoste kaudu. Nii on dimensioonidevahelised seosed defineeritud läbi nende faktorite nähtustena selliselt, et organisatsiooni orientatsioonifaktor (väline fookus ja sisene kontekst) oleks seotud mõlema organisatsiooni adapteerumise faktoriga (organisatsioonisisese koostöövõrgustiku arhitektuur ja kontroll-tagasiside süsteem) eraldi (joonis 3).



**Joonis 3.** Organisatsioonilise eestvedamise võimekuse mõõtmisraamistik

Allikas: Autori koostatud

Märkus: OE – organisatsiooniline eestvedamine

Esiteks on defineeritud välise fookuse & sisese konteksti ja organisatsiooni-sisese koostöövõrgustiku arhitektuuri faktorite vaheline interaktsiooni kui *organisatsiooniline kohesiivsus*. Defineerides kohesiivsust toovad Ronson ja Peterson (2006) välja kolm tema omadust: *liikmete omavaheline hea sobivus; liikmete motiveeritud tegutsemine vastavuses organisatsiooniliste eesmärkidega; liikmete identifitseerumine grupiga* (seotus gruppi identiteediga). Oluline koht on siin organisatsiooni visioonil ja missioonil, kui kõige suurema agregeerituse tasemega organisatsioonilistel eesmärkidel ja nende seotusel organisatsiooni sotsiaalse võrgustikuga. Samuti on oluline sotsiaalse võrgustiku struktuur, seda nii formaalsete kui mitteformaalsete sidemete osas. Erinevad uurijad on välja toonud, et tihedamad sotsiaalsed võrgustikud (suurem sidemete arv ja nende tugevus) on oma ülesannete täitmisel tulemuslikumad. Nii väidavad Carroll ja Burton (2000), et detsentraliseeritud struktuuriga sotsiaalsed võrgus-

tiikud on keerukate komplekssete ülesannete täitmisel tulemuslikumad. Cummings ja Cross (2003) omakorda näitavad, et grupi liikmetevahelise psühholoogilise seotuse ja kommunikatsiooni kasv suurendab grupi tulemuslikkust. Täiendavalt toovad Zaccaro *et al* (2001) välja ka meeskonna poolt ühiselt mõtestatud mentaalsete mudelite (i.k. *shared mental models*) mõju tulemuslikkusele. Nende mudelite keskmes on ühiselt jagatud eesmärgid, mida meeskonnaliikmed tõlgendavad organisatsiooni strateegilisse protsessi vastavalt väliskeskkonna mõjude muutumisele. Selliselt kirjeldatud organisatsioonilise orienteerituse seotust organisatsiooniliikmete vahelises koostöövõrgustikus on võimalik vaadelda *kohesiivsuse*na organisatsioonilisel tasandil.

Teiseks on defineeritud välise fookuse & sisese konteksti ja kontroll-tagasiside süsteemi faktorite vaheline interaktsioon kui *organisatsiooniliikmete kollektiivset võimekust tõlgendada oma igapäevased tegevusi strateegilistesse eesmärkidesse*. Keskkel kohal on siin organisatsiooniliikmete igapäevaste ülesannete täitmised ja nendega toimetulek. Boal ja Hooijberg (2000) nimetavad igapäevaste ülesannete täitmist sotsiaalseks tegevuseks, mida iseloomustavad kontroll ja paindlikkus, hoides selle tegevuse keskmes eesmärkide selguse ja nende saavutamise efektiivsuse. Selliselt kirjeldatud organisatsioonilise tegevuse kandjaks on eelpool toodud reguleerivad tagasisideprotsessid, millede abil tagatakse igapäevaste tegevuste vastavus organisatsiooni pikaajaperioodiliste eesmärkidega. Need reguleerivad tagasisideprotsessid seovad organisatsiooniliikmete igapäevased lühiperioodilised tegevused organisatsiooni pikaperioodiliseks käitumiseks.

Teoreetilise osa kolmas peatükk käsitleb organisatsioonilise eestvedamise võimekuse seost organisatsiooni efektiivsusega. Keskkel kohal on siin eestvedamise enda olemusest tulenevad kaks põhiaspekti – protsessi ehk funktsioneerimise ja eesmärgi ehk tulemuslikkuse aspekt. Nendest kahest põhiaspektist lähtuvalt on läbitöötatud ja süstematiseeritud teaduskirjandus, mille alusel on püstitatud uurimisväärted organisatsioonilise eestvedamise võimekuse omaduste esmaseks hindamiseks. Püstitatud uurimisväärted jaotuvad kaheks – uurimisväärted, mis võimaldavad uurida organisatsioonilise eestvedamise võimekust organisatsiooni funktsioneerimise aspektist ja uurimisväärted, mis võimaldavad uurida organisatsioonilise eestvedamise võimekust organisatsiooni tulemuslikkuse aspektist.

Organisatsiooni funktsioneerimine on seotud nii välise kui seise organisatsioonikäitumisega. Käesolevas doktoritöös on organisatsiooni välise käitumise fookuses tegevusharu iseloom ja konkurentsivõime. Organisatsioonid kasutavad erinevaid oskusi ja teadmisi, sõltuvalt nende tegevusharust. Segal-Horn (2006) ja Reich (1993) liigitavad tegevusharud teeninduses kõrgetel ja madalatel oskustel põhinevateks. Sellise liigituse järgi nõuavad suurema keerukusega ja teadmusmahukusega teenindustegevused mitte ainult kõrgemaid oskusi ja teadmisi organisatsiooniliikmetelt teenuste osutamise protsessis, vaid ka organisatsioonidelt suuremat võimekust oma liikmete teadmiste ja oskuste koordineerimisel. Samuti on organisatsiooniliikmete oskuste ja teadmiste koordineerimine üheks oluliseks konkurentsiteguriks tegevusharu kontekstis.

Hawawini *et al* (2003) toovad välja organisatsiooni spetsiifiliste võimekuste dünaamilise kogumi kui ühe olulise konkurentsieelise organisatsiooni suuruse ja strateegia kõrval. Teece (2009) defineerib seda võimekuste kogumit organisatsiooni “dünaamilise võimekusena” (i.k. *dynamic capability*) ja rõhutab juhtimise/eestvedamise keskset rolli organisatsiooni dünaamilise võimekuse kujundamisel.

Organisatsioonisisest käitumist on käesolevas töös uuritud organisatsiooni-liikmete töörahulolu kontekstis. Paljud töörahulolu uurijad kasutavad oma uurin-gutes jaotamist sisemiseks ja väliseks töörahuloluks (nt Arvey, 2006; Snipes *et al*, 2005; Arvey *et al*, 1989; Kalleberg, 1977; Weiss *et al*, 1967). Nendest sisemine on seotud töö iseloomu ja töötaja isiklike kogemustega tehtavast tööst ning välimine on seotud nii füüsilise kui sotsiaalse töökeskkonnaga. Käesolevas doktoritöös on sisemine töörahulolu kaetud töö enda iseloomuga (tehtava töö keerukuse ja kompleksusega), töötaja saavutatud tulemuslikkuse ja tunnustuse saamisega ning väline töörahulolu on kaetud juhtimise, füüsilise ja sotsiaalse töökeskkonnaga organisatsioonis.

Teise, organisatsiooni tulemuslikkuse aspekti osas on kasutatud nii finants-näitajaid kui ka mittefinantsnäitajaid. Kuigi erinevate finantsnäitajate valik on väga mitmekesine, kasutab käesolev doktoritöö näitajaid, mis peegeldavad organisatsiooni kasvu, kasumlikkust, rentaablust ja intellektuaalse kapitali kasutamist. Wong’i ja Sanders’i (1993) järgi on müügikäibe muutus ja kasum ühtedeks enamkasutatud finantsnäitajatest. Lisaks organisatsiooni kasvule peegeldab müügikäibe muutus organisatsiooni turule orienteeritust (Greenly, 1995). Kasumi osas toovad paljud autorid (nt Narver & Slater, 1990; Kohli & Jaworski, 1990; Kotler, 1988) välja kasumi võime peegeldada organisatsiooni turule orienteeritust lisaks organisatsiooni toimimise tõhususe hindamisele. Rentaabluste näitajad, nagu müügikäibe rentaablus (ROS) ja varade rentaablus (ROA), esindavad teist gruppi finantsnäitajaid. Wathen (1995), Kotha ja Nair (1995) näitasid müügikäibe rentaabluste positiivset seotust ettevõtte toomisstrateegiaga – sisemiste protsesside kujundamisega. Varade rentaablus on enamlevinud finantsnäitaja organisatsiooni toimimise tõhususe hindamisel, mis peegeldab organisatsiooni käsutuses olevate kogu varade kasutuse tõhusust. Sellest hoolimata ei võimalda need näitajad hinnata ühte kaasaegses teadmispõhises majanduses olulisemat ressursi lisaväärtuse loomise protsessis – intellektuaalset kapitali. Pulic’u (2000a) poolt loodud intellektuaalse kapitali hindamise meetod on vaba eelpool toodud puudusest. Selle hindamise meetodi raames välja töötatud näitajad võimaldavad hinnata intellektuaalse kapitali poolt loodud lisaväärtust nii tervikuna kui ka eraldiseisvate komponentidena. Intellektuaalse kapitali poolt loodud lisaväärtust tervikuna mõõdab *intellektuaalse kapitali lisaväärtuse koefitsient* (VAIC) ning intellektuaalse kapitali komponentide poolt loodud lisaväärtust mõõdavad *inimkapitali lisaväärtuse koefitsient* (VAHU) ja *struktuurkapitali lisaväärtuse koefitsient* (STVA).

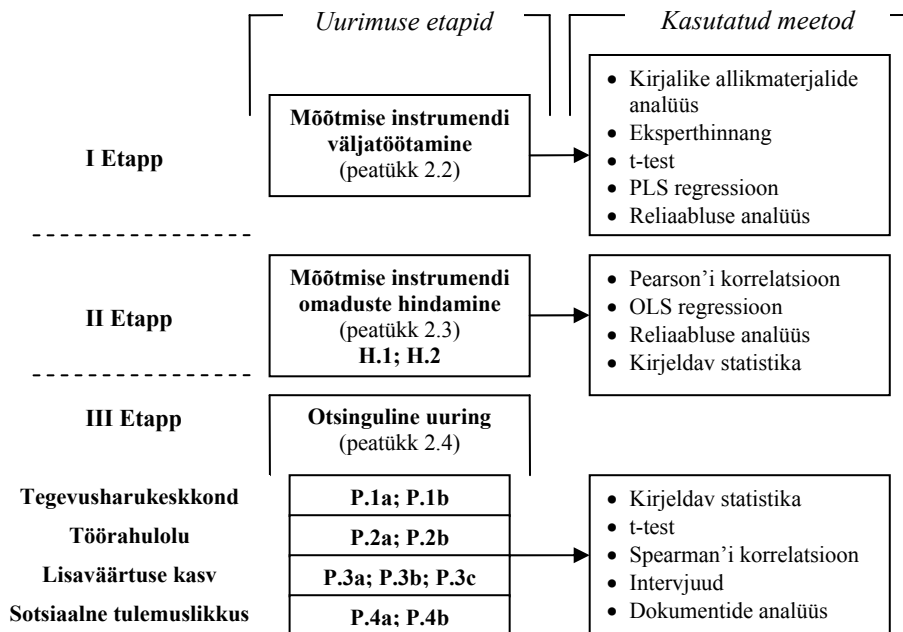
Kuigi erinevate finantsnäitajate kasutamine organisatsiooni tulemuslikkuse hindamisel on väga levinud, esineb nende suhtes ka teravat kriitikat. Nii väidab Loveridge (2006), et finantsnäitajad peegeldavad mineviku sündmusi ning

sellest tulenevalt annavad organisatsioonidele eksitavaid signaale pideva parendamise ja innovatsiooniprotsesside kontekstis. Siit ilmneb, et kuigi finantsnäitajad töötavad piisavalt hästi mineviku perspektiivis, ei suuda nad rahulda organisatsioonide vajadusi oma tuleviku kujundamise protsessis. Tulenevalt eeltoodust on mittefinantsilistel näitajatel täita oluline roll organisatsioonide tulemuslikkuse hindamisel. Käesolev doktoritöö kasutab kahte levinud mittefinantsnäitajat nagu ettevõtte ühiskondlik vastutus (i.k. *corporate social responsibility* – CSR) ja organisatsiooni eetiline käitumine. Ettevõtte ühiskondliku vastutuse hindamisel on kasutatud Carroll'i (1979; 1991) mudelit oma nelja komponendiga (majanduslik, õiguslik, eetiline ja vabatahtlik vastutus), mis on suunatud nii organisatsioonisestele kui välistele huvigruppidele. Eetilise käitumise hindamine baseerub Hosmer'i (1994) mudelil, mille keskmeks on organisatsiooni dilemma ja valikud kellelegi kasulikuks olemise ning samaaegse kellegi kahjustamise võimaluse vahel.

### **Andmed ja uurimismetoodika**

Empiiriline uuring viidi läbi kolmeetapilisena (joonis 4) Eesti organisatsioonides perioodil 2004–2010. Uuringuga töötati välja organisatsioonilise eestvedamise võimekuse mõõtmise instrument. Samuti hinnati väljatöötatud mõõtmisinstrumenti funktsionaalseid omadusi vastavuses doktoritöö teoreetilises osas loodud mõõtmise raamistikule ja viidi läbi avastusliku iseloomuga otsinguline uuring organisatsioonilise eestvedamise võimekuse fenomeni omaduste esmaseks väljatoomiseks.

Empiirilise uuringu esimene etapp toimus perioodil 2004–2007, mille käigus töötati välja organisatsioonilise eestvedamise võimekuse mõõtmisinstrument. Esmalt formuleeriti autori ja kahe eksperdi koostöös väited vastavuses teoreetilises osas loodud organisatsioonilise eestvedamise võimekuse mõõtmisraamistiku faktoritele. Järgnevalt hinnati väljatöötatud väidete sõnastust kahe erineva ekspertgrupi poolt ning korrigeeriti neid vastavalt saadud ekspert hinnangutele. Väidete lõpliku komplekti väljatöötamiseks viidi läbi uuring valminud küsimustikuga 6 organisatsioonis vastajate koguarvuga 445 ajavahemikus 2005–2007. Valimisse oli kaasatud 2 pank, 2 jaekaubanduse ettevõtet, 1 rakenduskõrgharidust andev õppeasutus ja 1 tootmisettevõte. Organisatsioonide mitmekesisus uuringu selles etapis oli vajalik usaldusväärse väidete komplekti määratlemiseks. Saadud algandmeid analüüsiti t-testi, Cronbach  $\alpha$  testi ja PLS regressiooniga (i.k. *Partial Least Squares*). Selle tulemusena formeerus mõõtmisinstrumenti lõplik konfiguratsioon – 22 väidet algsest 68-st väitest ning nende jaotus organisatsioonilise eestvedamise võimekuse erinevate faktorite vahel.



**Joonis 4.** Empiirilise uuringu etapid ja kasutatud analüüsimetodid

Allikas: Autori koostatud

Märkused: H. – uurimishüpotees; P. – uurimisväide; PLS – osaline vähemruutude meetod; OLS – tavaline vähimruutude meetod

Empiirilise uuringu teine etapp toimus perioodil 2006–2008 ja selle käigus hinnati väljatöötatud mõõtmisinstrumendi omadusi vastavalt doktoritöö teoreetilises osas väljatöötatud organisatsioonilise eestvedamise võimekuse mõõtmise raamistikule. Uuring viidi läbi kaheksas Eesti finantssektori organisatsioonis, kus organisatsioonilise eestvedamise võimekuse küsimustikule vastas kokku 555 nende organisatsioonide töötajat. Samuti kasutati finantsnäitajate arvutamiseks nende organisatsioonide avalikke finantsaruandeid perioodist 2004–2007. Valimi moodustasid 5 pank, 2 kindlustusseltsi ja 1 liising organisatsioon. Valimi homogeensus antud uuringus on oluline, kuna erinevate tegevusharude iseärasused võivad tuua täiendavaid kõrvalmõjusid organisatsioonilise eestvedamise võimekuse faktorite vastastikuste interaktsioonide hindamisse. Küsimustiku abil saadud algandmete põhjal hinnati organisatsioonilise eestvedamise võimekuse faktorite reliaablust Cronbach  $\alpha$  testiga ning nende vaheliste seoste tugevust Pearson'i korrelatsiooni kordajaga. Organisatsioonilise eestvedamise võimekuse faktoritevahelise mustri kindlakstegemiseks vastavalt mõõtmisraamistikus defineeritud interaktsioonidele kasutati triangulatsiooni meetodit, millega ühelt poolt hinnati interaktsioone OLS regressiooni (i.k. *Ordinary Least Squares*) meetodil indiviidi tasandil ja teiselt poolt kirjeldava statistika kvartiilide meetodil organisatsiooni tasandil. Saadud tulemustega

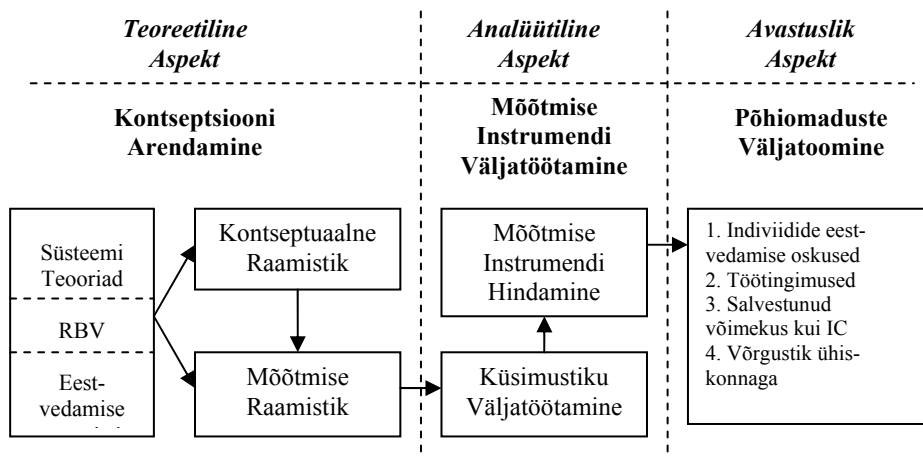


kontrolliti organisatsioonilise eestvedamise võimekuse mõõtmisraamistiku väljatöötamisel püstitatud uurimishüpoteese.

Kolmandaks uuringuetapiks oli avastusliku iseloomuga otsinguline uuring organisatsioonilise eestvedamise võimekuse ja organisatsiooni efektiivsuse vaheliste esmaste seoste väljatoomiseks. Selleks kasutati kahes eelnevas uuringuetapis kogutud algandmeid, millele täiendavalt lisandusid 2009 aastal organisatsioonilise eestvedamise võimekuse küsimustikuga ja poolstruktureeritud intervjuuga kogutud andmed ühest oma valdkonna juhtivast IT väikeettevõttest (18 vastajat – kõikne valim) ning ajavahemikul 2008–2010 ekspertgruppide poolt dokumentide analüüsi käigus kogutud ja süstematiseeritud informatsioon 2 panga ja 2 jaekaubanduse organisatsiooni kohta. Ekspertgruppide poolt koguti andmeid nende organisatsioonide kodulehtedelt ja teistest meediaväljaannetest. Täiendavalt kasutati organisatsioonilise eestvedamise võimekuse ja organisatsiooni efektiivsuse vaheliste esmaste seoste väljatoomiseks järgmisi statistilise analüüsi meetodeid: kirjeldavat statistikat (hinnangute keskmisi, standardhälvet ja kvartiile), t-testi ja Spearmani kordajat.

### Põhitulemused ja järeldused

Käesoleva doktoritöö tulemused saab jaotada kolm põhigruppi (joonis 5). Esiteks, eestvedamise kollektiivse kontseptsiooni edasiarendamine ja vastava teoreetilise raamistiku loomine selle fenomeni omaduste avamiseks ja mõõtmiseks. Teiseks, mõõtmise instrumendi väljatöötamine organisatsioonilise eestvedamise võimekuse hindamiseks, milline avab tee tema omaduste edasisteks uuringuteks. Kolmandaks, otsingulise uuringuga organisatsioonilise eestvedamise võimekuse esmaste põhiomaduste väljatoomine.



**Joonis 5.** Doktoritöö põhiväljundid

Allikas: Autori koostatud

Märkus: RBV – ressursipõhine vaade (i.k. recourse-based view); IC – intellektuaalne kapital

Kuigi eelnevad kollektiivse eestvedamise käsitlused on lähtunud erinevatest algkontseptsioonidest (traditsiooniline eestvedamine, strateegiline juhtimine, kompleksuse teooria), puudub seni ühtne terviklik lähenemine selle fenomeni käsitlemiseks. Täitmaks seda tühimikku on käesolevas doktoritöös arendatud organisatsioonilise eestvedamise võimekuse kontseptsiooni. Selleks on süstematiseeritud erinevad kollektiivse eestvedamise käsitlused ning neid üksteisega täiendades seotud ühtseks terviklikuks organisatsiooni tasandi käsitluseks. Lisaks sellele käsitletakse eestvedamist loodud kontseptsioonis organisatsioonilise võimekusena. Kollektiivne eestvedamine organisatsioonilise võimekusena ei ole varasemas kirjanduses käsitlemist leidnud või on tehtud seda vaid pealiskaudselt. Samas võimaldavad loodud organisatsioonilise eestvedamise võimekuse kontseptuaalne ja mõõtmise raamistik käsitleda kollektiivset eestvedamist kui organisatsiooni protsessidesse ja tegevusmustrisse salvestunud organisatsioonilist vara, millega organisatsioonid loovad oma unikaalse konkurentsieelse väliskeskkonna muutlikes tingimustes. Samuti toob loodud kontseptuaalne raamistik välja kollektiivse eestvedamise kui organisatsioonilise võimekuse karakteristikud, millele tugineb organisatsioonilise eestvedamise võimekuse mõõtmine.

Väljatöötatud organisatsioonilise eestvedamise võimekuse mõõtmisinstrument võimaldab hinnata kollektiivset eestvedamist, milline on salvestunud organisatsiooniliseks varaks. Organisatsioonilise eestvedamise võimekuse mõõtmise instrumendi disain lähtub kontseptuaalses osas loodud mõõtmise raamistikust, mille järgi sõltumatud faktorid on jaotatud kolmeks põhifaktoriks ja kaheks alamfaktoriks. Selle baasil välja töötatud mõõtmisinstrument koosneb 22 väitest, mis jaotuvad sõltuva ja sõltumatute faktorite vahel (tabel 2). Samas moodustuvad “organisatsioonisisene koostöövõrgustiku arhitektuur” faktori neli väidet tema kahe alamfaktori “tsentraliseeritusemäär” kahest väitest ja “kommunikatsioon” kahest väitest.

**Tabel 2.** Organisatsioonilise eestvedamise võimekuse küsimustiku kompositsioon

Sõltuv Faktor	Sõltumatu Faktor	
	Põhifaktor	Alamfaktor
Organisatsiooni tulemuslikkus <b>6 väidet</b>	Väline fookus ja sisene kontekst <b>4 väidet</b>	
	Organisatsioonisisene koostöövõrgustiku arhitektuur <b>4 väidet</b>	Tsentraliseerituse määr <b>4 väidet</b>
	Kontroll-tagasiside süsteem <b>4 väidet</b>	Kommunikatsioon <b>4 väidet</b>

Allikas: Autori koostatud

Mõõtmisinstrumendi väljatöötamise lõppfaasis hinnati tema võimet mõõta organisatsioonilise eestvedamise võimekust, mis avaldub mõõtmisraamistiku poolt defineeritud interaktsioonidena. Selleks testiti kahte uurimushüpoteesi interaktsioonide mõju osas organisatsiooni tulemuslikkusele. Vastavad tulemused on toodud tabelis 3.

**Tabel 3.** Hüpotheside testimise tulemused organisatsioonilise eestvedamise võimekuse hindamisel

Uurimushüpoteesid	Tulemus
<b>H1:</b> <i>Organisatsiooni suurem kohesiivsus mõjutab positiivselt organisatsiooni tulemuslikkust.</i>	Leidis kinnitust
<b>H2:</b> <i>Organisatsiooni suurem kollektiivne võimekus tõlgendada organisatsiooniliikmete igapäevaseid tegevusi strateegilistesse eesmärkidesse mõjutab positiivselt organisatsiooni tulemuslikkust.</i>	Leidis kinnitust

Allikas: Autori koostatud

Läbiviidud uuring tõi ka välja faktorite mustri kahes interaktsioonis. Selle musteriga on määratud organisatsioonilise eestvedamise võimekus tase ning tabel 4 toob välja faktorite mustri interaktsioonides, millega on määratud organisatsioonilise eestvedamise võimekuse kõrgem tase. Täiendavalt tõi uuring välja nende kahe interaktsiooni erinevad omadused. Kui “*organisatsiooniliikmete kollektiivse võimekuse tõlgendada oma igapäevaseid tegevusi strateegilistesse eesmärkidesse*” omab võimendavat iseloomu organisatsiooni tulemuslikkusele, siis “*organisatsioonilisel kohesiivsusel*” sellist omadust ei ole.

**Tabel 4.** Kõrgemat organisatsiooni tulemuslikkust võimaldav faktorite muster organisatsioonilise eestvedamise võimekuse mõõtmisraamistiku interaktsioonides

Interaktsioon	Faktorite muster
Organisatsiooniline kohesiivsus	Vf & Sk $\approx$ OKA
Organisatsiooniliikmete kollektiivse võimekuse tõlgendada oma igapäevaseid tegevusi strateegilistesse eesmärkidesse	Vf & Sk < KTS

Allikas: Autori koostatud

Märkused: Vf & Sk – väline fookus ja sisene kontekst; OKA – organisatsioonisisese koostöövõrgustiku arhitektuur; KTS – kontroll-tagasiside süsteem

Avastusliku iseloomuga otsinguline uuring tõi välja seosed organisatsioonilise eestvedamise võimekuse ja organisatsiooni efektiivsuse vahel kahes aspektis.

Esiteks, organisatsiooni funktsioneerimise ja teiseks, organisatsiooni tulemuslikkuse aspektis.

Uuringu tulemused organisatsiooni funktsioneerimise osas on toodud tabelis 5 ning nendest ilmneb, et organisatsioonilise eestvedamise võimekus on seotud nii organisatsiooni sisese kui ka välise käitumisega tema funktsioneerimise kontekstis. Samuti näitavad tulemused, et väljatöötatud mõõtmise instrument mõõdab organisatsioonilise eestvedamise võimekust kollektiivsel tasandil ja ei mõõda teda indiviidi tasandil (uurimusväide P.2a). See on vastavuses loodud kontseptuaalsele raamistikule, mille järgi organisatsioonilise eestvedamise võimekus on organisatsiooniline fenomen. Teostatud uuring toob välja kaks olulist organisatsioonilise eestvedamise võimekuse omadust. Esiteks, väliskeskonna keerukuse ja muutlikkusega toimetuleku seotus kõigi *organisatsiooniliikmete eestvedamise oskustega*. Need indiviidide oskused, olles rakendatud organisatsioonisiseses kollektiivsetes protsessides, kindlustavad organisatsiooni edukuse ja võime kohaneda väliskeskonna dünaamiliste tingimustega. Teiseks, tema seotus organisatsioonis olevate erinevate gruppide *töötingimustega*, mis hõlmab kõiki töökeskkonna rahulolu aspekte ja rõhutab nende võrdset olulisust.

**Tabel 5.** Organisatsiooni funktsioneerimise seos organisatsioonilise eestvedamise võimekusega

Uurimusväited	Tulemus
<b>P.1a:</b> Organisatsioonilise eestvedamise võimekus on kõrgem kõrge oskustega tegevusharu teenindusorganisatsioonidel kui madala oskustega tegevusharu teenindusorganisatsioonidel.	Leidis kinnitust
<b>P.1b:</b> Kõrge konkurentsivõimega organisatsioonide organisatsioonilise eestvedamise võimekus on kõrgem kui madala konkurentsiga organisatsioonidel.	Leidis kinnitust
<b>P.2a:</b> Kõrgema sisemise (ehk tööiseloost tuleneva) töörahuloluga gruppidel organisatsioonis on kõrgem organisatsioonilise eestvedamise võimekus kui madalama töörahuloluga gruppidel.	Ei leidnud kinnitust
<b>P.2b:</b> Kõrgema välimise (ehk töökeskkonnast tuleneva) töörahuloluga gruppidel organisatsioonis on kõrgem organisatsioonilise eestvedamise võimekus kui madalama töörahuloluga gruppidel.	Leidis kinnitust

Allikas: Autori koostatud

Otsingulise uuringu tulemused organisatsioonilise eestvedamise võimekuse ja organisatsiooni tulemuslikkuse vahel on toodud tabelis 6. Nendest ilmneb, et organisatsioonilise eestvedamise võimekus on seotud organisatsiooni tulemuslikkusega mõõdetuna nii finants- kui mittefinantsnäitajate osas. Sellest tulenevad organisatsioonilise eestvedamise võimekuse kaks järgmist olulist omadust, milledeks on organisatsioonilise eestvedamise võimekuse seotus organisatsiooni intellektuaalse kapitali ja ettevõtte ühiskondliku vastutusega

(i.k. *corporate social responsibility*). Esimesena toodud organisatsiooni intellektuaalne kapital moodustub oma komponentidest, organisatsiooni inimkapitalist ja struktuurkapitalist. Nendest inimkapital esindab organisatsiooni liikmete oskusi ja teadmisi ning struktuurne kapital nende oskuste ja teadmiste organisatsiooni tegevusmustrisse salvestunud vormi. Eestvedamise oskused on üks oluline osa organisatsiooniliikmete oskustest ja teadmistest ning on baasiks eestvedamise organisatsioonilise võimekuse formeerumisel struktuurse kapitali osana. Selliselt kujunenuna omab organisatsioonilise eestvedamise võimekus *intellektuaalse kapitali* omadusi ning seda nii inimkapitali kui struktuurse kapitali kontekstis. Teisena toodud organisatsioonilise eestvedamise võimekuse seotus ettevõtte ühiskondliku vastutusega peegeldab organisatsiooni võimet adapteeruda väliskeskkonnas. Ettevõtte ühiskondliku vastutuse näitaja on oma iseloomult suunatud üheaegselt nii organisatsioonisisestele kui välistele huvigruppidele. Ühiskondliku vastutustundlikkuse kontekstis avaldub eestvedamine kui organisatsiooniline võimekus liita organisatsioonisiseseid huvigrupid erinevate väliste huvigruppidega ühtseks *ühiskondlikuks võrgustikuks*, mis suurendab organisatsiooni avatust ja informatsiooni vahetust väliskeskkonnaga. Seega võimaldab organisatsiooni suurem seotus ühiskondlikus võrgustikus paremini tulla toime väliskeskkonna muutlikkusega.

**Tabel 6.** Organisatsiooni tulemuslikkuse seos organisatsioonilise eestvedamise võimekusega

Uurimusväited	Tulemus
<b>P.3a:</b> Organisatsioonilise eestvedamise võimekusel on seos organisatsioonisisese tegevuse tõhususega (ehk kasumiga) ja müügikäibe kasvuga.	Ei leidnud kinnitust
<b>P.3b:</b> Organisatsioonilise eestvedamise võimekusel on seos organisatsiooni kasumlikkusega mõõdetuna müügikäibe rentaabluks (ROS) ja varade rentaabluks (ROA).	Leidis osalist kinnitust
<b>P.3c:</b> Organisatsioonilise eestvedamise võimekusel on seos organisatsiooni tulemuslikkusega mõõdetuna intellektuaalse kapitali lisaväärtuse näitajatega.	Leidis kinnitust
<b>P.4a:</b> Kõrgema organisatsioonilise eestvedamise võimekusega organisatsioonid omavad ka kõrgemat ühiskondliku vastutuse määra (CSR).	Leidis kinnitust
<b>P.4b:</b> Kõrgema organisatsioonilise eestvedamise võimekusega organisatsioonid omavad suuremat respekti ühiskonnas.	Ei leidnud kinnitust

Allikas: Autori koostatud

Märkus: CSR – ettevõtte ühiskondlik vastutus (i.k. *Corporate Social Responsibility*)

Kõike eeltoodut arvesse võttes peaksid organisatsioonid, mida enam nad kasutavad teadmisi ja oskusi oma igapäevases äritegevuses, arendama samaaegselt koos oma liikmete eestvedamise oskustega ka organisatsioonilist keskkonda (töötingimusi ja tööprotsesse). Sellele lisaks, et salvestada oma liikmete oskused ja teadmised organisatsiooniliseks varaks, peaksid organisatsioonid ühelt poolt

suurendama organisatsioonisisese koostöövõrgustiku tihedust (sidemete arvu ja nende tugevust) ning nende seotust välise ühiskondliku võrgustikuga, ja teiselt poolt, täiendama oma mõõdiküsteeme nii finantstulemuslikkust peegeldavate intellektuaalse kapitali põhiste näitajate kui ka mittefinantstulemuslikkuse näitajate osas.

### **Soovitused edasisteks uuringuteks**

Organisatsioonilist võimekust eestvedamise kontekstis ei ole varasemalt uuritud. Seda on tinginud nii vastava teoreetilise raamistiku kui ka sobiva mõõtmisinstrumenti puudumine. Käesoleva doktoritöö raames on loodud organisatsioonilise eestvedamise võimekuse teoreetiline raamistik ja sellele vastavalt on välja töötatud mõõtmise instrument. Selle järgi koosneb organisatsioonilise eestvedamise võimekuse mõõtmisinstrument organisatsiooni orientatsiooni ja adaptatsiooni faktoritest, milledest eestvedamise organisatsiooniline võimekus avaldub interaktsioonidena: *organisatsioonilise kohesiivsuse* ja *organisatsiooniliikmete kollektiivse võimekuse*na tõlgendada oma igapäevased tegevusi strateegilistesse eesmärkidesse.

Eestvedamise organisatsiooniline võimekus on oluline vara, millega organisatsioonid ehitavad üles oma erinevaid võimekusi, kindlustades sellega enda edukuse nii lühi kui pikas perspektiivis. Sellest tulenevalt on äärmiselt vajalik uurida eestvedamise kui organisatsioonilise võimekuse fenomeni olemust ja tema efektiivse toimimise iseärasusi. Kuigi käesolev doktoritöö avab selle fenomeni olemuse ning toob välja esmased seosed organisatsiooni efektiivsusega, on rida aspekte, mida käesolevas töös ei ole uuritud. Nii on organisatsioonilise eestvedamise võimekuse avaldumine faktorite mustri interaktsioonides leitud Eesti finantssektori organisatsioonides. Teiste sektorite organisatsioonides võib organisatsioonilise eestvedamise võimekuse fenomen avalduda teistsuguste faktorite mustri. Täiendavat uurimist vajab ka *organisatsioonilise kohesiivsuse* interaktsioon. Varasemad kohesiivsuse uuringud meeskonna tasandil on näidanud nii positiivset kui negatiivset kohesiivsuse mõju grupi tulemuslikkusele (Langfred, 1998).

Edasistes uuringutes tuleks suuremate valimitega uurida organisatsioonilise eestvedamise võimekuse seoseid organisatsiooni efektiivsusega. Käesolev töö annab ainult esmased ning seega ainult suunda näitavad seosed organisatsioonilise eestvedamise võimekuse ja organisatsiooni efektiivsuse vahel. Ka täiendavad kvalitatiivsed uuringud võivad anda uut teavet ja informatsiooni organisatsioonilise eestvedamise võimekuse olemusest ning tuua välja täiendavaid seoseid organisatsiooni efektiivsusega, milliseid käesolev töö ei kajasta.

Käesolevas töös väljatoodud tulemused on kehtivad ainult Eesti kontekstis. Siin on määravaks Eesti turu väiksus ja kultuurilised erisused. Nende piirangute vältimiseks oleks otstarbekas järgnevat uuringut läbi viia suuremates riikides. Selleks tuleks organisatsioonilise eestvedamise võimekuse küsimustik tõlkida ja

adapteerida teistesse keeltesse vastavalt uuritava piirkonna keelekasutusele ja kultuurieripäradele.

Lisaks eeltoodule oleks tulevikus otstarbekas uurida eestvedamise organisatsioonilist fenomeni organisatsiooni “dünaamilise võimekuse” (i.k. *dynamic capability*) kontekstis. Selle kontseptsiooni kohaselt tuleb organisatsiooniliseks varaks salvestunud organisatsioonilisi võimekusi uurida vastavuses väliskeskkonna muutlikkusega. Vajadus sellesuunaliseks uuringuks kerkib esile organisatsioonilise eestvedamise võimekuse enda definitsioonist<sup>15</sup>, milles tuuakse välja organisatsiooni kohanemise vajadus väliskeskkonna dünaamikaga. Nii rõhutavad Teece (2009) ja Nooteboom (2009) organisatsiooni dünaamilise võimekuse puhul organisatsiooni võimet innovaatsiliselt reageerida väliskeskkonna dünaamikale. Hea võimaluse võivad siin anda organisatsioonilise eestvedamise võimekuse mõõtmise instrumendiga läbiviidavad longituduuringud.

Lõpetuseks võib öelda, et edasised uuringud organisatsioonilise eestvedamise valdkonnas võivad anda mitmeid uusi praktilisi teadmisi, millede rakendamine võib oluliselt suurendada organisatsioonide efektiivsust nii lühi- kui pikas perspektiivis.

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<sup>15</sup> Organisatsioonilise eestvedamise võimekus on organisatsiooniliikmete kollektiivne võime registreerida ja korrigeerida oma tegevusi vastavuses väliskeskkonna muutustele, hoides fookuses organisatsiooni põhieesmärgi.

## CURRICULUM VITAE

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**Education:**  
 2005–to date PhD Student, University of Tartu  
 1999–2000 Master's Degree, Tallinn University of Technology,  
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 1979–1985 Master's Degree, Tallinn University of Technology,  
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**Employment:**  
 2009–to date Lecturer (0.5), Faculty of Economics and Business  
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 2008–2009 Extraordinary researcher (0.5), Faculty of  
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 2006–2008 Extraordinary researcher (0.1), Faculty of  
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 2007–2008 Research coordinator, Lääne-Viru School of Applied  
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 2002–2008 Lecturer of Strategic Management and Economics,  
 Lääne-Viru School of Applied Sciences  
 2001–2001 Project manager, Flexa Eesti AS  
 1994–2001 Member of board, Pakane OÜ  
 1991–1994 Managing director, Kera AS  
 1989–1991 Director of research, Rakvere Meat Plant  
 1987–1989 Head of laboratory, Agro-company Pandivere  
 1986–1987 Engineer, Tallinn University of Technology, Faculty  
 of Chemistry, Laboratory of Foodstuff Industrial  
 Branch  
 1985–1986 Inspector, Commerce Inspection



**Main research interests:** Strategic management, leadership, intellectual capital, organizational innovation, organizational performance

**Academic work:**

**1) Projects:**

- |              |  |
|--------------|--|
| 2008–to date | Member of the research project “The Path Dependent Model of Innovation: Development and Implementation in the Case of a Small Country”, Estonian Ministry of Education and Research, project No. SF0180037s08. |
| 2008–2010    | Participation in the Leonardo da Vinci project “Transfer of innovative teaching-learning experiential methods for management education”, No. LLP-LdV-TOI-2008-LT-0028.   |
| 2007–2010    | Member of the research project “Service Organizations from the Perspective of Organizational Behaviour: Some Influencing Factors and Trends”, awarded by the Estonian Science Foundation, grant No. 7018.      |

**2) Editing and reviewing:**

- |              |   |
|--------------|---|
| 2009         | Reviewer of the article submitted to <i>Baltic Journal of Management</i> (Emerald Publishing Ltd)   |
| 2007         | Reviewer of the conference articles for <i>III International Conference on Management Theory and Practice: Synergy in Organizations</i> , 3–4 April 2007, Tartu, Estonia. |
| 2005–to date | Supervision of student theses (successfully defended) <ul style="list-style-type: none"><li>• BA level (1)</li><li>• diploma level (16)</li></ul>                         |
| 2002–to date | Reviewing <ul style="list-style-type: none"><li>• MBA level (2)</li><li>• diploma level (49)</li></ul>  |

**3) Teaching:**

- |              |   |
|--------------|---|
| 2010–to date | Leadership and Conflict Management (PhD level)                |
| 2009–to date | Selected Topics in Strategic Management (MBA level)           |
| 2008–to date | Leadership and Contemporary Concepts of Management (MA level) |
| 2008–to date | Strategic Management (MBA level)                              |
| 2008–to date | Business Management (MBA level)                               |
| 2008–to data | Basic Management (BA level)                                   |
| 2008–to date | Management (BA level)   |

2008–2009	Management and Organization (BA level)
2005–2008	Leadership and Management Theories (MA level)
2005–2008	Strategic Management (diploma level)
2003–to date	Participating in defence committees (diploma, BA, MBA level)
2003–2007	Regional Economics (diploma level)
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#### **Continuing education:**

11.2009	ecch: Introduction to Case Teaching, Vilnius, Lithuania
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08.2003	Audentes Ariko: Future and Competitiveness of Organizations, Tallinn, Estonia
09.1989–06.1990	Estonian Management Institute: Management Development, Tallinn, Estonia
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#### **Administrative work experience:**

2006–2007	Leading the organizing committee of the <i>III International Conference on Management Theory and Practice: Synergy in Organizations</i> , 3–4 April 2007, Tartu, Estonia.
2005–2006	Member of the organizing committee of <i>10<sup>th</sup> International Conference on Work Values and Behaviour</i> (ISSWOV), 22–25 June 2006, Tallinn, Estonia
1993	President of Rakvere JCI
1992–1994	Board Member of EVEA – Estonian Association of SME's

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<b>Haridus:</b>	
2005–	Tartu Ülikooli doktorant
1999–2000	MBA, ärikorraldus, Tallinna Tehnikaülikooli majandusteaduskond
1979–1985	Magistrikraad, tehnoloogia, Tallinna Tehnikaülikooli keemia-teaduskond
1968–1979	Tallinna 24. Keskkool
<b>Võõrkeeled:</b>	inglise keel, vene keel
<b>Teenistuskäik:</b>	
2009–	Lektor (0.5 kohta), Tartu Ülikooli majandusteaduskond
2008–2009	Erakorraline teadur (0.5 kohta), Tartu Ülikooli majandus-teaduskond
2006–2008	Erakorraline teadur (0.1 kohta), Tartu Ülikooli majandus-teaduskond
2007–2008	Rakendusuringute koordinaator, Lääne-Viru Rakenduskõrgkool
2002–2008	Strateegilise juhtimise ja majandusteooria lektor, Lääne-Viru Rakenduskõrgkool
2001–2001	Projektijuht, Flexa Eesti AS
1994–2001	Juhatuse liige, Pakane OÜ
1991–1994	Tegevdirektor, Kera AS
1989–1991	Teadusdirektor, Rakvere Lihakombinaat
1987–1989	Laboratooriumi juhataja, Agrofirma Pandivere
1986–1987	Insener, Tallinn Tehnikaülikooli toiduainete tööstusharu labor
1985–1986	Inspektor, Kaubanduse Inspeksioon
<b>Peamised uurimisvaldkonnad:</b>	Strateegiline juhtimine, eestvedamine, intellektuaal kapital, organisatsiooniline innovatsioon, organisatsioonide tulemuslikkus

## **Akadeemiline tegevus:**

### **1) Projektid:**

- 2008– Uurimisprojekti “Innovatsioonisüsteemi rajasõltuvust arvestava mudeli loomine ja rakendusmehhanismi väljatöötamine väikeriigi näitel” liige, Eesti Haridus- ja Teadusministeerium, projekt nr. SF0180037s08.
- 2008–2010 *Leonardo da Vinci* projekti “Transfer of innovative teaching-learning experiential methods for management education” nr. LLP-LdV-TOI-2008-LT-0028 liige.
- 2007–2010 Uurimisprojekti “Teenindusorganisatsioonid organisatsiooni-käitumise vaatenurgast: mõned tegurid ja arengusuunad” liige, Eesti Teadusfondi, grant nr. 7018.

### **2) Toimetamine ja retsenseerimine:**

- 2009 Retsensent artiklile ajakirjas *Baltic Journal of Management* (Emerald Publishing Ltd)
- 2007 3. rahvusvahelise konverentsi “*Management Theory and Practice: Synergy in Organizations*” (toimus 3.–4. aprillil 2007 Tartus) artiklite retsensent.
- 2005– Kaitsmiseni jõudnud üliõpilaste juhendamine:
- BA tase (1 üliõpilane)
  - diplomitööd (16 üliõpilast)
- 2002– Retsenseerimine:
- MBA tase (2 üliõpilast)
  - diplomitööd (49 üliõpilast)

### **3) Õppetöö:**

- 2010– Eestvedamine ja konfliktide juhtimine (PhD tase)
- 2009– Valikteemad strateegilisest juhtimisest (MBA tase)
- 2008– Eestvedamine ja kaasaegsed juhtimisteed (MA tase)
- 2008– Strateegiline juhtimine (MBA tase)
- 2008– Ettevõtte juhtimine (MBA tase)
- 2008– Juhtimise alused (BA tase)
- 2008– Juhtimine (BA tase)
- 2008–2009 Juhtimine ja organisatsioon (BA tase)
- 2005–2008 Eestvedamine ja juhtimisteed (MA tase)
- 2005–2008 Strateegiline juhtimine (diplomiõpe)
- 2003– Kaitsmiskomisjonides osalemine (diplomitööd, BA, MBA tase)
- 2003–2007 Regionaalökonomika (diplomiõpe)
- 2002–2008 Mikroökonomika (diplomiõpe)
- 2002–2008 Makroökonomika (diplomiõpe)

**Täiendõpe:**

- 11.2009 ecch: *Introduction to Case Teaching*, Vilnius  
03.2009 ecch: *Introduction to Case Writing*, Tartu  
08.2003 Audentes Ariko: Tulevik ja ettevõtete konkurentsivõime, Tallinn  
09.1989–06.1990 Eesti Majandusjuhtide Instituut: Arengujuhtide koolitus, Tallinn  
03.1986–06.1986 Tallinna Tehnikaülikool: Õppejõudude arvutustehnika kursused, Tallinn

**Administratiivne tegevus:**

- 2006–2007 3. rahvusvahelise konverentsi “*Management Theory and Practice: Synergy in Organizations*” (toimus 3.–4. aprillil 2007 Tartus) korraldustoimkonna juhtimine  
2005–2006 ISSWOV 10. rahvusvahelise konverentsi “*Work Values and Behaviour*” (toimus 22.–25. juunil 2006 Tallinnas) korraldustoim-konna liige  
1993 Rakvere JCI President  
1992–1994 Eesti Väikeettevõtete Assotsiatsiooni (EVEA) juhatuse liige

## DISSERTATIONES RERUM OECONOMICARUM UNIVERSITATIS TARTUENSIS

1. **Олев Раю.** Экономическая ответственность и ее использование в хозяйственном механизме. Tartu, 1994. Kaitstud 20.05.1991.
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Tartu, 1994. Kaitstud 21.06.1994.
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seosed (Eesti näitel). Tartu, 2000. Kaitstud 08.06.2000.
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