Leadership Matters— Or Does It?

BY JAMES A. PHILLS JR.

Senior executives consistently cite leadership as critical to their organizations. Board members, professional investors, consultants, and the media regularly invoke leadership as the explanation for the successes, failures, and misdeeds of companies, government institutions, and nonprofit organizations. Multimillion-dollar executive compensation packages and changes in stock prices associated with announcements of CEO succession bespeak the importance of leadership. Clearly the market thinks that it matters.

Moreover, the experts—the top schools of business administration that serve as the bastions of the professionalization of management—seem to agree; they uniformly define leadership as central to their basic mission. Harvard's mission, for example, is "to educate leaders who make a difference in the world." Wharton aims "to impact the world through the generation and dissemination of business knowledge and the development of leaders of integrity." Stanford's mission is "to create ideas that advance and deepen the understanding of management, and with these ideas, develop innovative, principled, insightful leaders who change the world." And many other elite business schools, such as MIT, Columbia, Kellogg, and the University of Chicago, accord leadership a prominent place in their mission statements.

Reflecting these aspirations, many of these schools have research centers, required courses, and chaired professorships dedicated to leadership. My own institution, the Stanford Business School, has recently established a Center for Leadership Development and Research, an initiative driven by strong interest among students and generous support from alumni and the larger business community.

Of course leadership matters. It seems preposterous to suggest otherwise.

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Or Does It?

Despite the enthusiasm for our Leadership Center at Stanford among MBA students, the administration, and funders, there is substantial ambivalence and even skepticism about the endeavor among many of my faculty colleagues. In large part, their concerns stem from fundamental questions about the value of leadership as a theoretical construct, and the problematic state of leadership research.

Conceptually, leadership is everything and nothing. Mythical and mysterious, it is like a Rorschach Test in that its meaning is dependent upon each viewer's unique perspective. It can be whatever we want it to be, and that is part of its popular appeal. But at the same time, this conceptual ambiguity contributes to leadership's status as one of the most fragmented and disappointing bodies of research and knowledge in the field of management.

Leadership has historically been both one of the most studied *and* one of the most engaging areas of inquiry in the field of management—yet one of the most flawed and problematic. More than 40 years ago, leadership expert Warren Bennis concluded, "Of all the hazy and confounding areas in social psychology, leadership theory undoubtedly contends for top nomination. . . . Ironically, probably more has been written and less is known about leadership than any other topic in the behavioral sciences." Despite considerable reflection and hand-wringing about the sad state of leadership research over the subsequent years, even contemporary reviews conclude that the topic remains a conceptual mess.

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Even the more bounded body of research directly examining the effects of leadership on organizational performance does little to help its cause, providing virtually no evidence of any consistent effect. In fact, in one well-known review, Jeffrey Pfeffer refers to the belief that leaders make a difference as a "mythology."

So, the question arises again: Does leadership really matter?

Toward an Understanding of Leadership Mechanisms

Despite the pervasiveness of the debate about what leadership really is and whether, and how much, it matters, these questions are fundamentally misguided. A much more interesting and potentially illuminating question is this:

How does leadership matter?

This steps back from the "Does it or doesn't it?" debate to focus on *understanding*, rather than measuring, the effects of leadership. Let me explain.

For leadership to matter, one has to believe two things. The first is that leaders can, and do, influence the performance of organizations, or—more broadly—any social system, whether a country, a group, or the global community. For businesses, this means creating economic value; for nonprofit or public institutions, it means primarily increasing the public welfare or creating social value. The second is that this influence is intentional and rational rather than accidental.

The shift to asking how leaders do (or might) influence performance focuses attention on the causal processes through which leaders influence performance, if indeed they do. We can think about these processes as akin to a "mechanism of action," a term used in the medical sciences to describe the way a drug produces its therapeutic effect. Such mechanisms are based on theories about the causes and physiological processes underlying a particular illness and evidence about the ways in which a drug affects these causes and processes. In the context of leadership, mechanisms of action provide a basis for thinking about the extent to which, and the ways in which, leaders can influence organizational characteristics that are themselves known to be determinants of performance. Thus they provide us with some purchase on the study of leadership by linking it to other important concepts like culture, vision, strategy, innovation, and learning.

This way of thinking about leadership is more useful than the does-it-or-doesn't-it approach. Understanding mechanisms allows us to evaluate claims based on both logic and evidence. Moreover, it also informs the inevitable question for current and aspiring leaders:

How can *I* matter?

Framing the question in this way speaks to the concerns of the *practice* rather than *academic study* of leadership. Those who function as leaders have to believe that leadership matters as an article of faith, otherwise there would be no reason to do what they do. However provocative or intriguing the debate over whether leadership matters is for scholars, it is academic for executives. For them the belief that leadership matters is personal.

Ask:
How can **I** *matter?*

The Theory of Performance

To matter, leaders must be able to exert some influence over their organizations' performance. The problem is that performance is a very complex and overdetermined outcome, which is to say that a lot of different things (or variables) affect performance. There are many such things and many ways in which one might influence them. Some of these things have more powerful impacts on performance than others, and some are more easily manipulated. The point is that leaders need to be intelligent about how they try to influence the drivers of performance.

If culture, for example, is a key driver of performance, then the leader should invest more time and effort trying to shape the culture of an organization than trying to recruit the industry's most talented superstars. Identification of the most important determinants of performance in a given context is ultimately based on the leader's personal theory of performance.

From the perspective of a specific individual, a theory of how to affect performance has two components: What are the drivers of performance in your current organization, and how do you affect these drivers? If you believe culture is a driver, then you need an understanding of the question, How, as a leader, can I shape culture? That answer may be that you need to communicate a lot, that you ought to hire certain types of people and not others, or that you need to model the desired values and behavior.

Thus the complexity arises because the answer to the question of how leadership can matter has to be tailored to the specific time, place, organization, and individual. A good theory will take into account specific contexts and constraints: who you are as a leader—your skills, strengths, and limitations—what type of organization you lead, and what the environment is like. A better theory will also be clear and focused in helping you target the determinants or levers that will in turn influence and drive performance, rather than trying to pull *all* of these levers—hiring the best people, getting a good culture, having great incentives, trying to obtain the best technology, and so forth. This allows you to target the most powerful levers, given your particular strengths and limitations.

Complexity prevents us from identifying concrete, reliable, and useful generalizations about leadership and performance.

The importance of a personal theory of performance is also implied by the conflicting results in the research on leadership. Basically, complexity prevents us from identifying concrete, reliable, and useful generalizations about direct relationships between leadership and performance. So while we can find evidence to support broad principles like *getting the right design* or *organizational architecture is important*, we can't say, "Across all situations cross-functional structures will lead to better performance." Because of the need to interpret and apply general principles, leaders have to be able to exercise judgment.

But where to start? A huge number of factors can influence the performance of an organization—among them culture, creativity, innovation, vision, and talent. Although these are reasonable things for leaders to try to influence, in my experience the two most fundamental and powerful mechanisms are the *psychological and emotional logic* and the *economic logic* of an organization.

The Psychological and Emotional Logic of Mission

For an organization to be effective, it has to mobilize the energy of its members. When people try harder, care more deeply, and are more tenacious in the pursuit of their collective goals, they are more likely to attain them. But performance depends not just on effort or motivation but on the coordination of efforts. Individual behavior has to be in the service of organizational goals, not just personal goals. Not surprisingly, much of management theory is devoted to the problem of coordination and alignment.

Economic incentives and rewards have historically played a central role in this arena, but recognition in the power of mission or vision as a source of motivation, direction, and connection has been growing. One popular example is the work of Jim Collins and Jerry Porras. Data from their book *Built to Last* show that companies with a clear sense of meaning and purpose that go beyond purely financial goals outperform companies with a singular focus on profitability. The role of leaders in developing and articulating this sense of mission or vision is perhaps one of the most striking findings of this study. Thus the psychological and emotional logic is one of the key mechanisms through which leaders can influence performance.

The Economic Logic of Strategy

No matter how compelling the mission, survival in a competitive environment depends on an economic logic that governs the organization's ability to sustain itself financially and—on the more positive end—to thrive. The frameworks that are fundamentally concerned with developing and evaluating economic logic come from the field of strategy. Strategy is about competition: how an organization can thrive and survive in an environment with other organizations and a limited pool of money. It is fundamentally about performance: for businesses, this is primarily profitability, and for nonprofits it is primarily social value. (Of course, the ability of nonprofits to create this value depends on economics as well—though it may be more useful to think in terms of *prosperity*—having the financial resources necessary to pursue their social purpose.)

The strategy literature shows that performance is influenced by firm-level attributes of competitive position or competitive advantage and by market characteristics typically conceptualized as industry structure. Thus key drivers of performance include strategic choices about how to compete (competitive strategy), where to compete (industry and market segment), and how to respond to environmental changes (industry evolution). Again, to link this back to leadership, leaders typically have the authority and responsibility for shaping (if not making) and evaluating strategic choices and monitoring their effectiveness. To the extent that they design and oversee a process that produces good strategic choices, then they can influence performance through the mechanism of strategy.

Finally, strategy—even when conceptualized as a concrete plan and set of competitive choices—must still be translated into action by a larger number of people (other than the leader or leaders) consistently over a long period of time. This is the challenge of execution. It involves operationalizing strategy as a set of specific choices about *resource allocation* (the prioritization and distribution of scarce inputs like capital, time, and attention), how to configure and perform activities (the routinized patterns of behavior through which work is done and products or services are created and delivered), and policies (the rules that govern and constrain the range of allowable choices about activities).

Relating Formal and Personal Theories

At first glance the role of personal theories of performance would seem to be at odds with my assertions about importance of mission and strategy. How is a personal theory related to the general principles of performance based on the concepts of psychological and emotional logic and economic logic? The answer is fairly simple. The latter provide an outline for, and elements of, a personal theory of performance. They imply that your personal theory ought to address both mission and strategy. But it is the personal theory of performance that provides the basis for the leadership tasks of envisioning, crafting, and evaluating a specific mission and strategy for a particular organization at a particular point in time. In sum, the personal theory operates on a much more concrete level and deals with the application rather than the general ideas about psychological-emotional and economic logics in a particular context.

The example in the following section provides a window into the personal theory of one leader and illustrates how mission and strategy operate in practice.

Leaders Who Matter: Strategy, Mission, and Execution in Action

If leaders really do matter, in the sense that they influence performance through their impact on strategy and mission, then we should be able to identify examples where both the impact and mechanism are clear. One highly visible and often cited example is the case of Steve Jobs, the founder and current CEO of Apple Computer. This case is particularly interesting because we can look at Jobs's influence both in the early years of the company between 1976 and 1985 and when he returned in 1997 after 12 years in exile.

Apple's dramatic success, growing from $800,000 in 1977 to almost $2 billion by 1985, was clearly driven by a strategy of focusing on everyday people in the home and education segment with a truly personal computer that was approachable and easy to use. Though it didn't emerge from a formal process, Jobs's imprint on the strategy and related vision is unmistakable. Moreover, numerous accounts of the actual execution of the vision through development of the original Apple II and later the Macintosh highlight the impact of Jobs's vision and zeal not only on the focus and commitment of the product development team but also on the critical design decisions that gave the Macintosh its functional and aesthetic appeal. Not that his impact was always positive: at the time he was driven out of Apple in 1985, there were also indications that Jobs contributed to the firm's inertia in responding to the competitive pressures of the PC industry.

In 1997, Jobs again assumed effective control over an Apple that was viewed as being on its deathbed, suffering record losses of more than $1 billion. Two years later, the company was again profitable; its stock nearly tripled, and its market value was up by a factor of five. Why? A host of factors contributed to the dramatic turnaround: successful products like the iMac and iBook were most visible, but other decisions about what not to do were also important; for instance, the reversal of the decision to license its operating system (referred to as "cloning"), the decision to kill the Newton, and the psychologically powerful move of not only making peace with the evil empire, Microsoft, but establishing a formal relationship in the form of a cross-licensing agreement. All these dramatic changes of both strategy and philosophy are clearly connected to Jobs.

Though many questions remained about Apple's long-term viability in 2000, Jon Swartz, a *Forbes* reporter and longtime Apple observer, attributed the dramatic turnaround to Steven P. Jobs, saying, "Make no mistake. . . . Apple's preening, 44-year-old chief executive officer, is *the* [his italics] reason for the improbable comeback."

"No one else on the planet could have done it."

So did leadership matter at Apple? Swartz's piece offers an endorsement of Jobs from the most unlikely of sources: the man who drove him out of Apple in 1985, former Apple CEO and rival John Sculley, who said, "No one else on the planet could have done it."

Does Steve Jobs's leadership at Apple still matter today? The company, though it has had periods of difficulty, seems to have tweaked its historical strategy in a way that is consistent with its original mission and that works: a focus on home, education, and creative users with an ever-expanding array of digital products that are not only well designed and easy to use but also create new ways for technology to help everyday people play as well as work—music, photo, video. Hence the slogan for Apple's suite of software, iLife, "It's like 'Microsoft Office' for the rest of your life."

What about performance? On October 28, 2004, Apple's stock closed at a four-year high of $52.19. Over the same period it has outperformed PC rivals Dell and Hewlett-Packard. Some critics point out that the business model is still fragile and problematic in a variety of ways. Could Apple still crash and burn? Sure. But this doesn't negate the fundamental point that Jobs's leadership has mattered. Just imagine where Apple would be today be if he hadn't returned in 1997.

How Leaders Steward Mission, Strategy, and Execution

Earlier I asserted that, for leaders to matter, they need to have a theory of performance that guides their actions. Such a theory has to identify the broad determinants of organizational performance and the mechanisms through which leaders can influence those determinants. Again there are many possible determinants: motivation, talent, technology, creativity, capital, or other factors. But the key is to understand how a leader's choices and actions affect these determinants.

Leadership might matter in any of a number of ways and the specific mechanisms are likely to vary in terms of importance and impact from one situation to the next. It may be that great leaders are able through pattern recognition, judgment, and intuition to figure out what will drive performance in any given setting, but we generally aspire to go beyond relying on recognizing and recruiting a great leader. Specifically, if we claim or aspire to select and train leaders who matter, then we have to be able to systematize the knowledge about how to matter. The problem is that field of management contains a wide range of ideas and concepts that could conceivably inform leaders' efforts to influence the performance of their organizations.

To select and train leaders who matter, we have to know how to matter.

I have argued that two critical mechanisms are the *economic logic*—how the entity competes in the marketplace for scarce resources—and the *psychological and emotional logic*, the fundamental significance and meaning underlying the organization's aspirations. Typically, these are described in terms of the labels of *strategy* and *mission*, respectively. However, my central point does not require the reader to accept this specific focus on strategy and mission.

Indeed, in the case of public leaders, political and societal logics require theories of performance tailored to national or international outcomes, or to dealing with a particular social problem such as crime, poverty, or public education. Such theories abound much as management theories of financial performance do in the world of business. While I have focused on traditional economic conceptions of performance, the argument applies just as well to noneconomic dimensions of performance such as social, environmental, or ethical outcomes. Regardless of the nature of performance and regardless of the particular levers specified by a theory of performance, such a theory is more important and useful than a theory of leadership per se.

This brings us back to where we began: Theorizing about and trying to demonstrate a direct relationship between leadership (whether it be traits or behavior) and performance is likely to continue to be a relatively unproductive endeavor. For leadership to matter, we need to understand the mechanisms through which leaders influence factors that determine organizational performance—which is to say, we need to understand *how* leadership matters. ■