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RESEARCH BRIEFS

CEOs WHO ARE SERVANT LEADERS: THE PATH TO BETTER FIRM PERFORMANCE?

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RESEARCH QUESTIONS

It seems like every time you turn around, there is a news story about a high-profile scandal involving selfish corporate executives. In some ways, the popular press has portrayed CEOs as being so greedy that the thought of a benevolent CEO seems too good to be true. This is unfortunate, of course, since there *are* leaders with a strong moral compass, who focus on the needs of their followers rather than their own self-interest. But does being such a leader actually pay off? That is, can and do firms benefit financially when their CEOs focus on developing their employees (e.g., by demonstrating the importance of personal integrity), rather than being self-centered and immoral? Moreover, if this style of leadership (also known as servant leadership) is truly related to firm performance, what factors contribute to it?

These are some of the questions that Suzanne Peterson (Arizona State University), Benjamin Galvin (University of Washington Bothell), and Donald Lange (Arizona State University) addressed in their recent study on executive characteristics and firm performance. According to the Peterson and her colleagues, servant leaders focus their attention on the long-term prosperity of the firm and the development of their employees. In doing so, servant leaders basically activate a process of reciprocation in which employees respond by performing better, not only individually but especially on behalf of the firm as a whole. Further, by underscoring the importance of integrity, these leaders promote a benevolent climate and a strong organizational commitment among employees. It is from this heightened commitment and performance that Peterson and her colleagues suggested that servant leadership could lead to enhanced firm performance.

Beyond the link between servant leadership and firm performance, Peterson and colleagues also examined characteristics of executives that may lead them to embrace a servant leadership style. One such characteristic was leaders' level of narcissism. Put simply, Peterson and colleagues predicted that servant leadership and narcissism should be inversely related, arguing that the tendency for narcissistic managers to care about themselves and their own self-aggrandizement more than anything else may also mean that they are less likely to identify with the organization as a whole, and ultimately less likely to embrace servant leadership.

Finally, Peterson and her colleagues also examined founder status as a precursor to servant leadership. Specifically, they suggested that CEOs who founded their companies would have a stronger emotional bond and identify more with their organization and its members. Given a founder's particularly strong interest in protecting and promoting his or her organization, Peterson and her colleagues argued that founder CEOs would be more likely than non-founder CEOs to become servant leaders who took a long-term perspective that would benefit the organization as a whole.

STUDY DESIGN AND METHOD

To examine the relationships between CEO servant leadership, narcissism, founder status, organizational identification, and subsequent firm performance, Peterson and colleagues used a sample of 126 CEOs from the software and hardware technology industries. The firms were small to medium-sized enterprises (SMEs), with an average number of employees of 98 and average sales of $7.8 million. As part of a consortium, the CEOs gathered every three months to discuss industry developments and build social networks.

During three of these conferences, Peterson and her colleagues collected survey data. They first surveyed CEOs in their sample about their narcissism and their founder status, and, three months later, surveyed them again about the extent to which they identified with their organizations. After another three months passed, they then asked the chief financial officers from the same 126 firms (who also attended a gathering of consortium members) to complete a servant leadership scale about their CEOs. To assess firm performance, Peterson and colleagues averaged three quarters of return on assets (ROA) data (i.e., annual income divided by net assets), the most common assessment of company performance used in the management literature. Finally, Peterson and colleagues included several control variables in their analyses, including CEO tenure, CEO age, length of the CFO–CEO relationship, and transformational leadership (in an effort to tease out the unique effects of CEOs' servant leadership).

KEY FINDINGS

Peterson and her colleagues ran a series of regression and mediation analyses to examine their hypotheses. Even after accounting for the control variables, their findings basically confirmed their expectations. First, as expected, two antecedents of CEO servant leadership and identification with the firm were having a low level of narcissism and being the company founder. In addition, CEOs who are higher in servant leadership appear to have a more positive impact on the firm's financial outcomes, with servant leadership predicting firm performance. Again, it is important to note that Peterson and her colleagues controlled for transformational leadership in this analysis. By holding constant this type of leadership (which involves charisma), they were able to isolate the connection between CEO servant leadership behaviors (e.g., caring about the organization's success rather than his or her own, valuing honesty more than profits, emphasizing the need to give back to the community) and the financial performance of the companies they were responsible for. Finally, the authors were also able to demonstrate that the relationship between CEO antecedents (i.e., narcissism and founder status) and CEO servant leadership was mediated by identification with the organization.

CONCLUSIONS AND IMPLICATIONS

The findings from this study are compelling on many levels and carry diverse implications. First, although narcissistic CEOs may convey passion, assertiveness, and vision, this can be overridden by the negative consequences of their grandiose view of themselves and their lack of empathy. Second, founder CEOs are more likely to be servant leaders. This is interesting because, as the authors argue, previous research shows that 50% of founders are no longer CEO after three years. In essence, founders may face the dilemma of making money by selling the company versus staying the course to lead their own firms over the longer haul (with the latter group having more opportunity and perhaps more impact as servant leaders). Regardless, psychological identification with the firm appears to be an important mechanism by which narcissism and founder status influence servant leadership behaviors. Peterson and her colleagues also suggested that more inclusive types of leadership may motivate and empower people, which in turn may make the companies they work for more profitable. Finally, fostering identification among people who surround the CEO—such as the top management team (TMT)—may also help create greater identification with the firm and reinforce the development of servant leadership among CEOs.

Indeed, in those companies in which the founder is no longer the CEO, there might be several reasons why it would be a good idea to promote someone from within rather than bringing an external executive. First, as one might expect, selecting and promoting a person from within indicates the faith a company has in its leadership, which may increase internal promotees' commitment to, and identification with, the firm. Second, short interactions (e.g., during employment interviews) have proven to be a relatively unreliable way to assess narcissism and the degree to which someone will exhibit organizational identification. It is far more reliable to assess such traits by observing behavioral indicators over longer periods of time using the input of many people (e.g., all members of the TMT). Thus, based on these findings, selecting someone from within the organization for the CEO position could be, everything else being equal, a more reliable and effective way to choose a leader in many situations.

In sum, having a CEO that focuses on both employees and ethical actions can lead to financial payoffs for organizations. Furthermore, this leadership style has antecedents that are both stable (narcissism and founder status) and modifiable (identification with the company). Consequently, taking steps to improve a CEO's identification with his or her company may be a profitable endeavor indeed.

SOURCE

Peterson, S. J., Galvin, B. M., & Lange, D. (2012). CEO servant leadership: Exploring executive characteristics and firm performance. *Personnel Psychology, 65,* 565–596.