

Literature Review: Measuring Leadership Effectiveness in Family Business

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Abstract

The scholarly and biblical literature provides many examples of measuring leadership effectiveness in large organizations and small, family-run firms. This literature review attempts to coalesce the current literature and examine themes that can be developed to devise parallels between the broader organizational context of leadership and the focused nuances of the family business. This literature review will discuss leadership's effectiveness under the family business lens. The implications for family business owners are that they would be wise to spend as much time fostering a positive family climate as they do on creating a successful business strategy if their goal is to pass the business from one generation of family owners to the next. This literature review exercise demonstrates that this author has a firm knowledge of the approaches to understanding and measuring leadership effectiveness and allows for developing future research interests.

Keywords: leadership, organizational theory, organizational outcome, leadership effectiveness, family firm, family business, family business leadership, family-owned, leadership behavior

Measuring Leadership Effectiveness in Family Business

This literature review will discuss leadership's effectiveness under the family business lens. This review will take a two-prong approach. According to researchers, effective leadership is a crucial analysis of organizational success or failure while examining the factors that lead to organizational success (Madanchian et al., 2017). The question is, do leadership or influential leaders matter and positively affect organizational outcomes? Based on a search of scholarly and biblical literature, effective leadership is essential. It does affect organizational outcomes, and more narrowly, effective leadership can show measured results in the family firm.

First, it will examine how effective leadership can be measured in an organization. Researchers have measured the specific outcome to assess the relative effectiveness of one leader compared to another in those studies where leader outcomes are identified as the measure of when a leader is effective. These approaches include group performance and success of group goals, subordinate leader effectiveness evaluations, developed subordinate job satisfaction, improved subordinate performance, and improved decision making (Madanchian et al. 2017).

Secondly, the measurement approaches from the family business lens are engagement with work, shared vision, and family climate. These three measures can show the extent of leadership effectiveness to which the next generation leader is perceived to be effective. Thus, these factors most closely associated with multigenerational family business longevity are meaningfully related (Miller, 2014). The implications for family business owners are that they would be wise to spend as much time fostering a positive family climate as they do on creating a successful business strategy if their goal is to pass the business from one generation of family owners to the next (Miller, 2014).

Methodology

An initial search of the literature on "measuring leadership effectiveness" revealed that the topic broadly focuses on organizational success and outcomes, referring to constructs developed in the general leadership literature (Madanchian et al., 2017; Fries et al., 2021). Based on this initial finding, this author decided to relate keywords to the literature review to identify relevant research on leadership effectiveness in organizations and family firms. This author followed the process for conducting a literature review as described by Tranfield et al. (2013), which includes planning, conducting, and reporting. This author focused the literature review on English, peer-reviewed academic journal publications in the last five years. It contains the following keywords: "leadership" or "organizational theory," or "organizational outcome," or "leadership effectiveness," or "family firm" or "family business," or "family business leadership," or "family-owned" or "leadership behavior."

Leader Effectiveness in Organizations

Broadly, leadership implies continuously motivating and encouraging your people and acting as a reference model for behavior and performance, demonstrating the ability to adapt the course of the organization concerning an external environment that changes continuously (Para-González et al., 2018). Furthermore, leaders must take their organizations into the future by implementing strategies that lead them toward more favorable outcomes (Manzoor et al., 2019). Moreover, among the different types of leadership that exist transformational leadership strives to align the values and goals of employees with those of the organization by influencing or altering their values, beliefs and attitudes through internalization or identification (Manzoor et al., 2019).

Additionally, leadership effectiveness considers an outcome when individuals in the leadership position can impact a group to perform their roles with positive outcomes. This conceptualization of leadership effectiveness is challenging (Subramony et al., 2018). Among researchers, there are many arguments to find out what leadership effectiveness is and how it should be measured; therefore, there are many theories and conclusions that are diverse and numerous (Subramony et al., 2018; Manzoor et al., 2019; Madanchian et al. 2017). For this literature review, it is necessary to focus on the most common outcome measures to evaluate an effective leader, which is the consequence of their actions (Madanchian et al. 2017).

Group performance and success of group goals.

According to Madanchian et al. (2017), the most used measure of leadership effectiveness in an organization is group performance and the scope of which goals and objectives of the firm are met. To the extent that this can be measured, it is a strong indicator that leaders can influence their subordinates and lead them to achieve the organization's goals. Moreover, an organization with established, common goals that can be achieved with different methods is one example and increase the personal performance of persons and their groups (Urban, 2018). Various approaches can establish them to define and differentiate starting salaries, measure, and evaluate employees' functioning, or tools for increasing their throughput corresponding to the further strategy of the firm (Urban, 2018).

Subordinate leader effectiveness evaluations.

Many researchers have investigated subordinates' evaluations of leadership effectiveness by asking followers to assess how well a leader performs within the organization and how they accomplish specific outcomes (Madanchian et al., 2017). Chun et al. (2018) examined the positive relationship between the Leader-Member Exchange (LMX) theory and leader

effectiveness was mediated by leaders' negative feedback-seeking. Additionally, the positive relationship between LMX and leader negative feedback-seeking was stronger when perceived subordinate expertise was lower (Chun et al. 2018). These findings were obtained after controlling for leaders' power distance and goal orientations that might influence their motives to seek or avoid feedback (Chun et al., 2018).

Developed subordinate job satisfaction.

According to Madanchian et al. (2017), job satisfaction indicates the leader's effectiveness. However, research by Mickson and Anlesinya (2019) shows that an effective leader always inspires their followers to ensure that common objectives are met to advance the overall success and effectiveness of the organization or the group. This is in line with the measure of group performance as proposed by Urban (2018). Specifically, both transformational leadership style and transactional leadership were strongly and positively associated with overall job satisfaction and intrinsic and extrinsic factors of job satisfaction (Mickson & Anlesinya, 2019). Moreover, transformational leadership practices could make the subordinates develop intrinsic motivation or satisfaction from their job by making their work or employment more meaningful in an inspiring and supportive work environment. Additionally, such leadership behaviors, typical of transformational leaders, could enhance the quality of the relationship between the leader and their subordinates (Mickson & Anlesinya, 2019).

Improved subordinate performance.

Along with more robust development of subordinate job satisfaction (Mickson & Anlesinya, 2019), improved performance is a crucial indicator of leadership effectiveness. The leader is effective when they can influence and raise the performance of subordinates (Madanchian et al., 2017). Accordingly, Markovic and Bagherzadeh's (2018) research

investigates the impact of the breadth of external stakeholder co-creation on innovation performance, considering the mediating roles of knowledge sharing and product innovation. Interestingly there can be a negative impact on subordinate performance towards innovation (Amankwah-Amoah et al., 2019). Previous studies have demonstrated that resource constraints such as a shortage of skilled employees and institutional obstacles such as legal and regulatory restrictions and inadequate infrastructure can significantly curtail innovation and the activities of small and medium-sized enterprises (Amankwah-Amoah et al., 2019). Indeed, a lack of financial resources inhibits a firm's ability to explore new ideas to innovate and achieve greater viability (Amankwah-Amoah et al., 2019). Nevertheless, some studies indicate that the resource constraints faced by firms can force them to innovate and given that resource constraints are highly impactful in emerging economies, there is a strategic imperative for organizations to identify a niche to enhance their chances of success (Amankwah-Amoah et al., 2019).

Improved decision-making.

One of the critical tenants of measuring organizational success is the firm's ability to improve the decision-making process. Not only in the medium to large enterprises but small, family-run firms, is a leader's success tied closely to the company's decisions. Astrachan et al. (2020) argue that family firms are value-driven organizations that provide ample room for religious beliefs to affect family, business, and individual decisions. In addition, including morally binding values, such as spiritual principles, can alter organizational decision-making and ethical behavior (Astrachan et al., 2020). Further, Neubaum (2018) proposes that the independence, overlap, and relatedness among the characteristics of the family business affect leadership regarding decision-making behavior. Moreover, family business research often

considers the factors and how they are related, independent, or dependent on the relationship within the organization (Neubaum, 2018).

Leadership Effectiveness in Family Business

By contrasting broader measurement variables of larger firms, the researchers determined that overlap and affiliation of organizational success as a measure of leadership effectiveness in the cohort of the family business can interplay within the practical context. The scholarly literature is replete with examples of how larger firms can develop measures to secure leadership effectiveness, but the family business is entirely different (Madanchian et al., 2017; Urban, 2018; Manzoor et al., 2019; Miller, 2014). The multigenerational survival rate for family-owned businesses is not reasonable (Miller, 2014). The lack of a shared vision for the family enterprise and weak next-generation leadership are often cited as two of the leading reasons for the failure of family firms to successfully transition from one generation of family ownership to the next (Herrero, 2018; Miller, 2014). The climate of the business-owning family has also been suggested as necessary to the performance of the family enterprise (Herrero, 2018). Despite these commonly held tenets, there is a lack of rigorous quantitative research that explores the relationships among these three factors (Miller, 2014). This lack of research is perplexing and encouraging to this author as he develops a research project for his upcoming doctorate program.

Engagement with work.

Miller (2014) proposes that engagement with work is a robust measure of leadership effectiveness in the family firm. Work engagement is the opposite of burnout and has been identified as a central element of well-being within an organization. Next-generation, family business leaders who are more committed by vigor, dedication, and the long-term survival and success of the firm is deemed to be a more effective leader (Miller, 2014). Furthermore, the

research of Ramírez-Pasillas and Nordqvist (2021) shows that such engagement facilitates the development of a business purpose that includes and goes beyond financial profits. The study connects insights from the family entrepreneurship literature with those from the sustainability literature. It suggests three sustainable venturing processes that can help develop engagement with entrepreneurship in the business family (Ramírez-Pasillas & Nordqvist 2021). Through these processes, Ramírez-Pasillas and Nordqvist (2021) argue that sustainability provides an opportunity of involving different generations and branches of a family to build commitment around a purpose and shared values and principles in new sustainable ventures that stretch beyond the traditional financial goals of the business.

Shared vision.

Though the research is dated by a few years for relevance to this literature review, Miller (2014) found that a shared vision for the family business has a strong effect on the leadership effectiveness of next-generation family leaders and a moderate impact on the degree to which they are positively engaged with their work (Miller, 2014). The findings also show that two dimensions of family climate significantly influence the likelihood of creating a shared vision for the family firm (Miller, 2014). First, open communication in the family is positively related to the presence of a shared vision for the business. A shared vision can ultimately enhance a firm's performance and be used as a measure of leadership effectiveness (Herrero, 2018). By its very nature, a family business has strong family ties, and this social capital is more readily available and shared when a shared vision, common language, and enduring relationship continue to develop (Herrero, 2018).

Moreover, Mzid et al. (2019) found that respondents emphasized the critical role of social, financial, shared vision, and human resources in family firms. In addition, initiatives such

as clear communication of the firm's objectives to all generations of the family were an emergent pattern to develop organizational resilience (Mzid et al. (2019). The results also underline overlapping relationships between the three types of family capital.

Family climate.

A measure of leadership effectiveness in the family firm relies on a solid value system carried throughout the organization. Astrachan et al. (2020) argue that family firms are value-driven organizations that provide ample room for religious beliefs to affect family, business, and individual decisions. In addition, including morally binding values, such as spiritual principles, can alter organizational decision-making and ethical behavior (Astrachan et al., 2020). Of course, not all family firms uphold the rigors of a Christian value system and rely on a more secular approach to nurture the family climate. Miller (2014) postulates that family climate has a strong effect on family business culture and performance and is what makes family-owned businesses different from public and nonfamily privately owned firms. Miller (2014) identifies three broad categories that define family climate, each of which has three dimensions: (a) family intergenerational style, (b) family cohesion, and (c) family process.

This cohesion and stewardship can measure leadership effectiveness, resulting in the family firm, and allow family business owners to pursue long-term social and organizational goals for the collective benefit of all stakeholders (Gao et al., 2021). Much akin to the value system as proposed by Astrachan et al. (2020), the role of religion as one dimension of stewardship relies "very much on personal characteristics such as values, honesty, generosity, sacrifice, and discipline" (Le Breton-Miller & Miller 2018, p. 233), influencing multiple areas of the family business. In addition, stewardship theory assumes a relationship-based system

focusing on non-financial goals and individuals serving the organizational good (Carradus et al., 2020).

Summary and Conclusions

The scholarly and biblical literature provides myriad examples of measuring leadership effectiveness in large organizations and small, family-run firms. This literature review attempts to coalesce the current literature and examine themes that can be developed to devise parallels between the broader organizational context of leadership and the focused nuances of the family business. As noted herein, leadership researchers determine that effective leadership is a crucial analysis of organizational success or failure while examining the factors that lead to organizational success (Madanchian et al. 2017). The question is, do leadership or influential leaders matter and positively affect organizational outcomes? Based on a search of scholarly and biblical literature, effective leadership is essential. It does affect organizational outcomes, and more narrowly, effective leadership can show measured results in the family firm.

The literature shows that in a broader leadership context, leadership effectiveness can be measured through group performance and success of group goals, subordinate leader effectiveness evaluations, developed subordinate job satisfaction, improved subordinate performance and improved decision making (Madanchian et al. 2017). In the family firm, these measures include engagement with work, shared vision, and family climate. These three measures can show the extent of leadership effectiveness to which the next generation leader is perceived to be effective. The implications for family business owners are that they would be wise to spend as much time fostering a positive family climate as they do on creating a successful business strategy if their goal is to pass the business from one generation of family owners to the next (Miller, 2014). This literature review exercise demonstrates that this author

has a firm knowledge of the approaches to understanding and measuring leadership effectiveness and allows for developing future research interests.

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