

**DOES CEO CHARISMA MATTER? AN EMPIRICAL ANALYSIS OF THE
RELATIONSHIPS AMONG ORGANIZATIONAL PERFORMANCE,
ENVIRONMENTAL UNCERTAINTY, AND TOP MANAGEMENT TEAM
PERCEPTIONS OF CEO CHARISMA**

Bradley R. Agle
Katz Graduate School of Business
University of Pittsburgh
Pittsburgh, PA 15260
(412) 648-1571
(412) 648-1693 FAX
agle@katz.pitt.edu

Nandu J. Nagarajan
Katz Graduate School of Business
University of Pittsburgh
Pittsburgh, PA 15260

Jeffrey A. Sonnenfeld
Yale School of Management
Yale University
New Haven, CT

Dhinu Srinivasan
Katz Graduate School of Business
University of Pittsburgh
Pittsburgh, PA 15260

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This article reports the results of a study examining the relationships among strategic charismatic leadership, organizational performance, and environmental uncertainty with primary data from a sample of 128 Chief Executive Officers (CEOs) of major U.S. corporations. Based on 770 surveys from top management team members (TMT) in these companies, objective stock market and accounting data, and an objective measure of environmental uncertainty, we found that organizational performance is associated with subsequent perceptions of CEO charisma, but that perceptions of CEO charisma are not associated with subsequent organizational performance, even after incorporating the potential moderating effect of environmental uncertainty.

Are charismatic CEOs associated with better organizational performance than their less-charismatic counterparts? The academic literature has identified the importance of strategic leaders and in particular, the CEO, as a determinant of organizational performance (e.g. Hambrick, 1989; Finkelstein & Hambrick, 1996). Meanwhile, leadership researchers have demonstrated that charismatic leaders can be more effective than their less-charismatic counterparts (e.g. Bass, 1985; Howell & Frost, 1989; Koene, Vogelaar, & Soeters, 2002). A meta-analysis of studies of charismatic leadership found that it is consistently related to various measures of leadership effectiveness (Lowe, Kroeck, Sivasubramaniam, 1996). While most of this research has been performed at lower levels of management, leadership theories (Conger & Kanungo, 1987; Pawar & Eastman, 1997) have suggested that the same phenomenon might be seen at the strategic level of leadership as well. However, several authors have suggested that a potential downside to charismatic leadership in terms of organizational performance could arise because of the frequent association between charisma and dysfunctional forms of narcissism (Conger & Kanungo, 1998; Maccoby, 2000; Sankowsky, 1995).

Empirical evidence on the relationship between CEO charisma and organizational performance is mixed. Waldman, Ramirez, House, and Puranam (2001) found no direct relationship between CEO charisma and subsequent organizational performance as measured by net profit margin, but found that CEO charisma predicted organizational performance when managers perceived the environment to be more uncertain. Similarly, Tosi, Misangyi, Fanelli, Waldman, and Yammarino (2004) found no direct relationship between CEO charisma and organizational performance as measured by shareholder return or return on assets, but found a positive moderating effect of perceived environmental uncertainty for the relationship between CEO charisma and shareholder return. Finally, unlike the other two studies, Waldman, Javidan,

and Varella (2004) found that CEO charisma is related to subsequent organizational performance as measured by net profit margin and return on equity, but found no support for a moderating effect of perceived environmental uncertainty.

Table 1 provides a summary of the similarities and differences across these various studies, contrasted with the study reported in this article. The similarities in these studies include investigation of the same general research question (i.e. the effect of CEO charisma on organizational performance), the type of informants (i.e. TMT members), and the nature of the sample (i.e. Public U.S. and Canadian firms). However, there are many differences, including the sample size, number of participants, response rates, measures, and timeframes. For example, the current study differs from the rest in the instrument used to measure CEO charisma and the measure of environmental uncertainty. The current study uses a variety of organizational performance measures and similar to Waldman et al. (2001), employs a pre- and post-survey design with multiple controls.

There are several potential explanations as to why the results of prior research are mixed. First, as mentioned by these authors, two limitations of their studies are small sample sizes and low number of responses per firm. This is because primary data on CEOs is very difficult to collect. Second, theories of this complex relationship have argued for a number of mediating and moderating variables (Canella & Monroe, 1997; Waldman & Yammarino, 1999), many of which are also difficult to disentangle, measure, and test. Third, methodological differences may contribute to the mixed findings. The different results of prior studies could also be the product of the different measures of organizational performance employed in the research. For example, Waldman et al. (2001) use just one measure, an accounting measure of performance. Also, Tosi et al. (2004) and Waldman et al. (2004) did not control for prior organizational performance,

although earlier research (Waldman et al., 2001; Virany, Tushman, & Romanelli, 1992) emphasized the need for such a control. Fourth, none of the earlier studies investigated whether objective and subjective measures of prior organizational performance are associated with TMT perceptions of CEO charisma. Waldman et al.'s (2004) conclusion that charisma was not associated with prior organizational performance was based on simple correlations without controlling for firm size and CEO tenure. Their measure of performance is also potentially noisy because they measured prior performance over a five year period regardless of when the CEO assumed that title.

In a recent editorial, Eden (2002:842) emphasized the importance of replication studies, particularly those utilizing different samples and measures, in moving theory forward. He wrote: "Lykken (1968) stressed the importance of *constructive* (italics in original) replication, defined as research that tests the same hypothesized relationships among the same theoretical constructs as a given earlier study but varies the 'operationalization' of those constructs. Confirmation of the same hypothesis using different methods strengthens confidence in the validity of the hypothesized relationships." Our study is a constructive replication in that it tests the same hypothesized relationships among the same theoretical constructs as in earlier studies, but utilizes a different sample and varies the operationalization of the constructs (e.g. a similar, but different measure of CEO charisma, and an objective measure of environmental uncertainty). Furthermore, this study overcomes many of the methodological issues in earlier studies through the use of a larger sample of firms, more respondents per firm, a comprehensive portfolio of perceived, accounting and stock market measures of organizational performance, and rigorous econometric methods. Such methodological improvements allow us to have greater confidence in the results because of greater statistical power in the models, and less susceptibility to: 1) a TMT

member's idiosyncratic rating of CEO charisma, 2) the peculiarities of any particular organizational performance measure, and 3) under-specified models.

THEORY AND HYPOTHESES

Organizational Performance and Subsequent Perceptions of CEO Charisma

Kelley's (1967) general attribution model, along with more specific attribution theories and research on leadership (e.g. Meindl, Ehrlich, & Dukerich, 1985; Calder, 1977; Shamir, 1992) have provided evidence that when organizations are perceived as having performed well, others will attribute that success to the leaders of that organization and will endow them with positive attributes. That said, Waldman, Bass, and Yammarino (1990) noted that the issue of causation in the relationship between the leader and organizational effectiveness is still an open question. While it is possible that charismatic leadership leads to organizational performance, it is also possible that organizational performance causes attributions of charisma to be applied to the leader (Meindl et al., 1985). They noted that future research must be performed before any definitive statements can be made about this relationship. Thus, we expect perceptions of CEO charisma to be higher when the organization has performed well.

Hypothesis 1: There is a positive relationship between organizational performance and subsequent top management team perceptions of CEO charisma.

Charismatic Leadership and Subsequent Organizational Performance

While several theories of charismatic, transformational, or visionary leadership and organizational performance have been offered (e.g. House, 1977; Burns, 1978; Bass, 1985; Conger & Kanungo, 1987; and Shamir, House, & Arthur, 1993), an integration of these theories by House and Shamir (1993) proposed that charisma is the central concept in each. Recent work

has suggested that the positive relationship between charismatic leadership and performance found in earlier studies is expected to also hold true at the strategic (CEO) level (Waldman et al. 2004). The essence of extant theories is that charismatic strategic leaders may have an influence on organizational performance because of their ability to overcome the three major inertial forces (cognitive, motivation, and obligation (Gersick, 1991)) that keep organizations from successfully adapting to a new environment (Agle, 1993); their ability to inspire and motivate employees and other corporate stakeholders (Agle, 1993; Shamir, House, and Arthur, 1993); their ability to create cohesion among the members of the organization with their vision (Waldman & Yammarino, 1999) and power (Finkelstein & Hambrick, 1996); the influence their values have on their strategic choices (Finkelstein & Hambrick, 1996); the cascading effect their leadership has on followers throughout the organization, and their willingness to implement strategic change (Waldman & Yammarino, 1999). Indeed, Waldman and Yammarino (1999) provided a full theoretical model demonstrating how CEO charismatic leadership leads to organizational performance through both close and distant relationships.

Adapting to a changing environment by overcoming organizational inertia is viewed as a particularly important condition for improving organizational performance (Tichy & Devanna, 1990). Charismatic leaders overcome cognitive inertia (inability to think outside one's own schema) because their strong values shape choices concerning strategy. For instance, these leaders create exciting visions of the future and promote unconventional problem-solving approaches. Motivational inertia (desire to avoid change) can be overcome through the leader's ability to provide followers with confidence that changes can be positive. Shamir and Howell (1999) noted that the vision of charismatic leaders helps followers to see opportunities in change, and provides them with the hope and confidence in the future that allows them to mobilize their

energy in pursuit thereof. Finally, obligation inertia (commitments to constituencies) can be overcome through the leader's ability to change current contractual (both legal and social) relationships with various stakeholders. Thus, when top management team members perceive their CEO as charismatic, we expect higher subsequent organizational performance. Therefore:

Hypothesis 2: There is a positive relationship between top management team perceptions of CEO charisma and subsequent organizational performance.

CEO Charisma, Organizational Performance, and Environmental Uncertainty

As noted by Waldman et al. (2001), Shamir and Howell (1999), and others, the level of environmental uncertainty can affect relationships between various predictors of corporate leadership and organizational performance. Because there is a greater perceived risk of organizational failure when the environment is more unstable or uncertain, CEO discretion may be enhanced during such periods (Hambrick & Finkelstein, 1987). With increased discretion, the influence of their leadership is magnified.

Similarly, leaders in unstable, risky or crisis situations may also take on greater symbolic importance. Factors such as greater follower effort and greater follower cooperation that mediate the relationship between charisma and organizational performance depend on the followers' willingness to accept the leader's influence. Under conditions of uncertainty and crisis, followers feel the need for greater direction and guidance (Bass, 1990), and their inclination to accept influence may be greater (Shamir and Howell, 1999). Thus, willingness to follow the leader may be more pronounced in unstable environments. This emphasis on the importance of uncertainty corresponds with sociological perspectives on the importance of crises in the demonstration of charisma and its effects (Beyer & Browning, 1999).

Finally, Pawar and Eastman (1997) suggested that firms in turbulent environments tend to be dominated by their boundary-spanning units, as opposed to dominant technical cores. Because the tasks in these types of units are not well-defined and thus cannot be standardized, such organizations lend themselves to a greater influence from their charismatic CEOs. Therefore, CEO charismatic leadership will be more highly related to organizational performance when the organization's environment is uncertain and volatile.

Hypothesis 3: The positive relationship between CEO charisma and subsequent organizational performance is stronger under conditions of high uncertainty.

METHODS

Sample Characteristics and Questionnaire Administration

Our questionnaire data were gathered in 1992. The sample for this study was drawn from the Monitor Publishing Company's Financial 1000 and Corporate 1000 Yellow Books. 500 CEOs from this sample were randomly chosen to participate in this research. 128 of the CEOs agreed to do so, representing a 26% response rate. The members of the top management team of each firm were sent the questionnaire with an accompanying cover letter indicating their CEO's support for the project, and an assurance of anonymity of the respondents and confidentiality of the information. 770 out of 960 questionnaires were returned, for an 80% response rate, resulting in an average of six respondents per firm. We compared our sample (128 firms) with the non-responding (372) firms on a number of dimensions such as organizational age, size, abnormal stock returns, and capital intensity of firms, as well as CEO tenure. The t-tests demonstrated no significant differences. The CEOs in the sample had an average tenure of 6.6 years at the time the questionnaire was administered and stayed for an average of 4.5 years after the questionnaire

administration. The sample firms averaged 55 years of age, \$6.5 billion in assets, and 16,000 employees, and covered the spectrum of industries.

Measures

The various theorized characteristics of charismatic leaders were measured using a refinement of a larger instrument developed by Podsakoff, MacKenzie, Moorman, and Fetter (1990; see Agle, 1993 for further details on the refinement). In order to encourage a high response rate from top executives, the design criterion of one-page precluded the use of the multi-factor questionnaire (MLQ) (Bass & Avolio, 1990), which at the time of our survey was available only in its entirety.

The Appendix displays five major factors that emerged from this refined instrument. In addition to the factor scores, a global variable labeled “total charisma” was computed by adding the raw scores of all the questionnaire items. Because of strengths and weaknesses of various interrater agreement measures, we computed both the intraclass correlations ICC(1), ICC(2), and $r^*_{wg(J)}$ (Winer, 1962; Lindell & Brandt, 1999; Lindell, Brandt, & Whitney, 1999). The Appendix shows the high values of these measures for the five factors. In addition, the alpha coefficient, ICC(1), ICC(2), and interrater agreement ($r^*_{wg(J)}$) for the global charisma scale used in this study were .94, .34, .90, and .80 respectively. Overall, the very high interrater agreement and scale reliability justified the combination of individual manager’s responses into a single measure of charisma for each CEO. Because statistical analyses utilizing the five charismatic leadership factor scores, and the global charismatic leadership scale were very similar for each of the hypotheses tested, this article reports the results of the analyses using the global charismatic leadership scale.

Operationalizing organizational performance is always a challenge because the strategy, accounting and finance literatures suggest that both accounting and market-based measures suffer from measurement and controllability issues, and that these measures may not converge to represent the same construct of organizational performance (Fryxell and Barton, 1990). Hence, we used both primary and secondary sources of data, and objective and perceived modes of assessment, as suggested by Venkatraman and Ramanujam (1987). We utilized the measure of perceived organizational performance developed by Ramanujam, Venkatraman, and Camillus (1986) that was based on four questions assessing the firm's increase in sales, earnings, market share, and return on investment (ROI) in relation to its competitors since the time of the CEO's ascension (measured on a seven point Likert scale from much better to much worse). Factor analysis utilizing principal component analysis also placed these items into a single factor with respective loadings of .88, .89, .87, and .88. Our measure of perceived organizational performance, constructed as the average of the sum of the raw scores for these four items, had an appropriate level of scale reliability and interrater agreement ($\alpha = .90$; $ICC(1) = .69$; $ICC(2) = .89$; $r^*_{wg(j)} = .86$).¹

We further operationalized organizational performance by constructing a stock return measure and various accounting measures of performance. In general, CEOs may have greater control over (internal) accounting measures than (external) stock market measures because of their ability to control levels of investment, adjust discretionary accruals, and shift earnings across periods (Murphy, 1999), and because stock market measures are subject to greater levels

¹ We did not throw out any outliers in the construction of the TMT subjective performance and charisma measures. However, we also constructed these measures after deleting firms with three or fewer respondents. The results did not change.

of extraneous noise. However, it must be noted that there are no theoretical reasons to suppose that a CEO may have greater leverage over one accounting measure than another. For example, popular accounting measures in the literature, i.e. return on assets, equity and sales, differ only in their denominators. CEOs, potentially, can influence all these measures to a similar extent.

Because all indicators of organizational performance are likely to be imperfect, we considered multiple measures of organizational performance to verify that the hypothesized relationships are robust across variations in measurement, thus increasing the value of constructive replication (Eden, 2002).

We constructed the stock return measure, first by measuring the cumulative stock return of each firm over the pre-questionnaire period, i.e. from the announcement of the new CEO until the questionnaires were completed in 1992, and the post-questionnaire period, i.e. from the time the questionnaires were completed in 1992 until the CEO's departure or until the end of 1999, whichever is first. We then subtracted the corresponding average cumulative stock return of the industry (firms with the same four digit Standard Industrial Classification (SIC) code) to obtain the industry adjusted stock return and then annualized it.

We next constructed three accounting measures following prior studies in accounting research as (1) return on assets (ROA) computed as income before extraordinary items divided by the total assets of a firm in a year, (2) return on equity (ROE) computed as income before extraordinary items divided by the total stock holder equity of a firm in a year, and (3) return on sales or profit margin (ROS) computed as income before extraordinary items divided by the net sales of a firm in a year (this measure corresponds to the net profit margin (NPM) used by Waldman et al., 2001, 2004). We also constructed a growth measure for each firm as the percentage change in sales dollars (or revenues) from one year to the next. Data from the

COMPUSTAT database were obtained for each measure for each firm for multiple years that span our sample period. We corrected all these measures by subtracting the industry averages of the respective measures and averaged each industry-adjusted annual measure over the pre- and post- questionnaire periods.

Unlike earlier studies (Waldman et al., 2001, 2004; Tosi et al., 2004), we utilized an objective measure of environmental uncertainty, namely firm risk, commonly used in the accounting, finance and strategy literatures (e.g. Gray & Canella, 1997; Core, Holthausen and Larcker 1999; Miller, Wiseman, & Gomez-Mejia, 2002) and which may be interpreted as the collective assessment of uncertainty by the stock market participants as opposed to the assessment of managers. More importantly, higher stock volatility, perceived as higher risk by the market, may also lead to higher cost of capital, further leading to financial uncertainty. We used the volatility of stock returns during the post-questionnaire² (performance) period as our proxy for uncertainty and estimated it as the annualized standard deviation of daily stock returns of a firm adjusted for average industry volatility. Following prior studies (Virany et al., 1992; Waldman et al., 2001) that argued that organizational size, CEO tenure and prior performance should be controlled for in research seeking to relate CEO characteristics to organizational performance, we included organizational size, measured as the value of total assets in 1991 (the year immediately prior to the questionnaire date), CEO tenure³ (measured as the number of years the CEO held that position prior to the questionnaire date), and the prior (pre-92) industry-adjusted organizational performance as control variables. To reduce problems associated with

² Our results were similar when we used the pre-questionnaire period to estimate uncertainty.

³ The minimum CEO tenure (TENURE) we allowed was one year. The results remained qualitatively similar including or excluding CEOs with this tenure requirement.

multicollinearity, similar to Waldman et al. (2001), we used Cronbach's transformation by centering the charisma and uncertainty variables around their means before forming the interaction term.

RESULTS

Table 2 presents the correlations among the variables of interest. Charisma is significantly correlated with the perceived performance measure ($p < .01$), pre-questionnaire period stock return ($p < .05$), ROA ($p < .05$) and sales growth ($p < .01$). However, for the post-questionnaire period, it is significantly correlated ($p < .05$) only with sales growth. CEO tenure is associated with some measures of organizational performance. However, all the correlations must be interpreted with caution because they represent pair-wise associations and do not control for other factors that may impact organizational performance.

To test Hypothesis 1, we regressed CEO charisma separately on the perceived measure of prior organizational performance and also four objective (financial) measures of prior organizational performance, after controlling for organizational size and CEO tenure. Table 3 presents the relation between CEO charisma and various measures of prior performance. The results suggest that the perceived measure of organizational performance is associated with subsequent perceptions of CEO charisma. Further, some objective measures of organizational performance i.e. stock return, ROA and sales growth, are significantly associated with subsequent perceptions of CEO charisma, supporting Hypothesis 1. Because prior organizational performance was measured for the period before the questionnaire was administered, one can argue that organizational performance may influence subsequent managerial perceptions of CEO charisma.

Table 4 presents the results of regression analyses (similar to those of Waldman et al., 2001) for tests of hypotheses 2 and 3. The explanatory power of the models (adjusted R^2) with various measures of organizational performance ranges from .03 to .38. Prior organizational performance is the only significant variable that explains much of the subsequent organizational performance, except for the model with stock return for which prior period organizational performance is not significant. These results suggest that subsequent organizational performance is not associated with charisma or the interaction between charisma and uncertainty, thus failing to support either Hypothesis 2 or 3. The results of hierarchical regression analyses (not shown) also suggest that charisma and environmental uncertainty do not predict any significant variance in subsequent organizational performance and are not associated with it even when they are included one at a time in the regression models. We also measured organizational performance and environmental uncertainty over short periods, i.e. a one-year period before and after the questionnaire date. Our results do not change in the presence of these alternative measures. Our reported results are based on the sample after deleting outliers defined as those observations with *t*-student values of more than two (Belsley, Kuh, & Welsch, 1980). Our results were similar when we did not delete the outliers. Overall, our findings are robust to various alternative specifications.

DISCUSSION

Theoretical and Practical Implications

In this research, we found evidence of 1) a relationship between perceptions of CEO charisma and perceived measures of prior organizational performance, 2) a relationship between perceptions of CEO charisma and some objective measures of prior organizational performance, and no relationship with other objective measures, and 3) no relationship between charisma and

subsequent objective measures of organizational performance even after considering the moderating effect of environmental uncertainty. Some of these findings are similar and the rest are contrary to the findings of other recent studies examining these relationships.

As illustrated in Table 1 and as discussed in the introduction, some of the reasons for the mixed findings may be the methodological differences in the studies. Another factor, not yet introduced, is the potential for same-source and same-method biases. In our study, when testing Hypothesis 1 using perceived measures of charisma and organizational performance, we found that same-source bias existed and minimized it by using the split sample technique (Rousseau, 1985). However, same-method bias might still have existed. The presence of a stronger relationship between CEO charisma and perceived prior organizational performance than with objective measures of prior organizational performance obtained from sources other than the questionnaire exposes this bias. It is possible that past findings may also have had this limitation. Waldman et al. (2001) noted that none of the studies meta-analyzed by Lowe et al. (1996) used hard measures of actual financial performance. In addition, Waldman et al. (2001) and Tosi et al. (2004) found a significant interactive effect for perceived environmental uncertainty, but their perceived measures of charisma and uncertainty came from the same source and through the same method. Neither of these studies found a direct relationship between a perceived measure of charisma and an objective measure of performance. Only after adding the interaction between perceived charisma and perceived uncertainty was any relationship found.

We also gain insight from the different measures used in these studies. Through use of the MLQ, Waldman et al. (2004) substituted intellectual stimulation for charisma and found a significant moderating role for environmental uncertainty in the relationship between CEO

charisma and organizational performance. This result suggests that researchers should look closer at the intellectual stimulation portion of charismatic leadership as a potential mediator of CEO charisma and organizational performance. Intellectual stimulation might be a particularly important aspect of leadership when business conditions are changing and followers need to be able to think outside the box. Similarly, our use of an objective measure of uncertainty might have had a different effect from that found in studies that used perceived measures. The top management team's own perception of the uncertainty of the environment or level of firm crisis might lead them to be more accepting of change (Tichy & Devanna, 1990) than an objective (stock market) assessment of the firm's uncertainty.

There are also theoretical reasons that might explain why the various studies have failed in general to find a direct relationship between CEO charisma and organizational performance. First, empirical testing is in its early stages. Charismatic leadership has been theorized on a number of dimensions, not all of which have been tested in the research. For example, notions of behavior novelty (unconventionality) and challenges to the status quo (Conger & Kanungo, 1998) have not been tested. Shamir and Howell (1999) have suggested that the effectiveness of charismatic leaders is greater in the early and later stages of organizational life cycle, a potential moderator not yet included in the research. Waldman & Yammarino's (1999) model of the relationship between CEO charisma and organizational performance included a number of mediating and moderating variables. To better understand the causal nature of this relationship, further research needs to include such mediating and moderating variables to examine the black box between CEO charisma and organizational performance. As an example of such research, in a longitudinal randomized field-experiment, Dvir, Eden, Avolio, and Shamir (2002) found that transformational leadership had positive effects on follower development and performance.

Also, leaders in small organizations generally have greater latitude of action (Hambrick & Finkelstein, 1987) than leaders sampled in existing studies. Thus, in a sample with smaller firms one may find a greater effect of CEO charisma on organizational performance. In fact, Koene et al. (2002) found that managerial charisma was correlated with the performance of small supermarkets, but was not correlated with that of large supermarkets. Also, the function of CEOs in large firms is often different from that in smaller firms. These CEOs are often more involved with public relations activities and with capital allocation and corporate development (e.g. mergers, acquisitions, divestitures) than with the actual “running of the business” (Garten, 2001). In fact, the role of the CEO in many multi-division firms is to serve as a substitute for the capital markets, evaluating the performance of the leaders of the corporate divisions and allocating capital and changing leadership accordingly, a more evaluative than inspirational role. In such firms, the line operating executives’ level of charisma might actually be more important than the CEO’s. In addition, in such large firms, Boards of Directors and the financial community also serve to restrain the CEO’s power. Future studies might include as variables the degree to which the CEO is involved in the actual operations of the firm, as well as the degree to which his or her power is constrained by the Board of Directors and the financial community. However, given the absolute complexity and diversity of variables which contribute to organizational performance in large sized firms, it may be very difficult to find an effect of CEO charisma on organizational performance.

Alternatively, it may be that charismatic leadership at the CEO level is not more effective leadership. Yukl (1999) suggested a number of reasons that this might be the case, such as inappropriate radical changes resulting from charismatic leadership, misuse of power by charismatic leaders, and polarization of organization members. Conger & Kanungo (1998) and

Maccoby (2000) proposed that the downsides of narcissistic tendencies of charismatic leaders might neutralize the benefits of their leadership. Such negative consequences of charisma have not been tested in extant research.

To answer the question posed in the title of this article “Does CEO Charisma Matter?” our evidence suggests that CEOs who are perceived to be more charismatic appear to be perceived as more effective. In this subjective sense, CEOs matter. However, the lack of corroborating evidence from objectively-assessed CEO performance suggests that the search for charismatic CEOs may be based more on implicit theory or halo effects than on solid evidence that charisma really does make CEOs more effective. The present study is not able to provide stock analysts, investors, and Boards of Directors with evidence that CEO charisma is necessarily beneficial in terms of predicting future financial performance, even under conditions of uncertainty, and suggests that they need to be cautious when considering the potential benefits of charismatic leaders. In the same vein, in a recent book examining executive succession, Khurana (2002) refers skeptically to the phenomenon of looking for a charismatic CEO as “Searching for a corporate savior: The irrational quest for charismatic CEOs.” He suggests that Boards of Directors have been under the illusion that charisma is the important element of leadership performance and that they should be looking for specific firm-related leadership skills in potential CEOs instead of charisma. The efficacy of a leader’s charisma in terms of directly shaping organizational performance may therefore vary by level in the hierarchy – raising potential questions about whether prior research which found solid evidence between leader charisma and leadership effectiveness can be generalized across all situations.

Limitations and Conclusion

While this research provides a much larger sample and uses more measures of the phenomena under investigation than similar studies, it is not without its limitations. Primary among these is the self-selected nature of the sample. We were unable to determine if the sample is skewed based on CEO charisma, and thus, it is possible that our sample is overly-populated with CEOs who agreed to participate in the research because they considered themselves to be charismatic. Also, as noted earlier, this sample consists solely of large firms - a restricted range of firms - which might have constricted the relationships revealed.

In addition, in spite of measuring organizational performance in two different timeframes i.e. pre- and post-questionnaire, it is still not possible for us to completely disentangle the causal nature of the relationship between CEO charisma and organizational performance. Earlier works using this database (Agle, 1993; Agle & Sonnenfeld, 1994) reported a relationship between CEO charisma and organizational performance, but acknowledged that given the timeframe used in their research (organizational performance preceding measurement of CEO charisma), they could not demonstrate this causal direction empirically. Yukl's (1999) argument that charisma is transitory and Weber's (1947) classic argument that charisma cannot remain stable, but becomes either traditionalized or routinized over time suggest that CEO charisma's impact on organizational performance is greatest for the earlier part of a CEO's tenure. Thus, because our measurement of charisma took place on average after six years of CEO tenure, one may still argue that the significant positive association we found (see Table 2) between charisma and pre-questionnaire organizational performance measured over the earlier part of CEO's tenure is evidence that charisma matters for organizational performance. Those who would support this interpretation could refer to research suggesting that TMT members, who are very close to the

CEO, are less likely to attribute their perceptions of CEO charisma to prior organizational performance (Shamir, 1995).

To go beyond this study to investigate the impact of CEO charisma on organizational performance one would need to create a design, similar to that utilized by House, Spangler, and Woycke (1991) to test for the effects of presidential leadership, in which CEO charisma would be measured before the CEO ascended to that position. While difficult, one could envision measuring the charisma of a large group of top executives likely to rise to the CEO level within a short time period and then testing for organizational performance effects after they become CEO. Alternatively, one could measure charisma immediately after the appointment of the CEO or based on archival materials (articles, speeches or videotapes) before the CEO assumed that title. All these designs would help explore the short-term versus long-term impact of charisma on organizational performance while eliminating the confounding effect of prior organizational performance on perceptions of charisma. While, the present results show that the significant relationship between prior performance and ratings of CEO charisma is not complemented by evidence of any relationship between ratings of CEO charisma and subsequent performance, the conclusion that CEO charisma does not affect subsequent performance cannot be ruled out. There remain many unresolved issues that potentially could cast a different light on this relationship. These may be fruitful areas for future research.

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TABLE 1
Comparison of Empirical Studies of CEO Charismatic Leadership and Organizational Performance

Study	Current study	Waldman, Ramirez, House, and Puranam (2001, AMJ)	Waldman, et al. (2004, LQ)	Tosi et al. (2004, LQ)
Sample	128 Public U.S. Firms across industries	48 Public U.S. Firms across industries (only 32 with CEO in place for entire period)	69 Public U.S. and Canadian Firms across industries	59 Public U.S. Firms across industries
Informants Number of Informants	Top management team members 770 survey respondents – average of six per CEO (at least three per CEO)	Top management team members Unspecified number of survey respondents (estimated as 125) - average of less than three per CEO	Top management team members Less than 193 survey respondents – average of less than three per CEO	Top management team members 112 survey respondents – average of less than two per CEO
Response Rate	26% of 500 CEOs agreed to participate, 80% of executives surveyed	20% of executives surveyed	28% of executives surveyed	37% of executives surveyed
Measure of Charismatic leadership	Adaptation of scale by Podsakoff, et al. (1990)	Multi-Factor Leadership Questionnaire (Bass & Avolio, 1990)	Multi-Factor Leadership Questionnaire (Bass & Avolio, 1990)	Multi-Factor Leadership Questionnaire (Bass & Avolio, 1990)
Measures of Organizational Performance	<u>Accounting</u> – Industry-adjusted ROA, ROS (NPM), ROE Sales Growth <u>Stock Market</u> – Industry adjusted stock return <u>Subjective</u> – TMT evaluations of firm performance	<u>Accounting</u> – Industry-adjusted net profit margin (NPM)	<u>Accounting</u> – Industry-adjusted ROA, NPM, Sales Growth	<u>Accounting</u> – Industry-adjusted ROA <u>Stock Market</u> – Industry adjusted stock return
Measure of Uncertainty	Objective - Volatility of stock returns (Core, Holthausen and Larcker, 1999)	Subjective – Perceived Environmental Uncertainty (Khandwalla ,1976)	Subjective - Perceived Environmental Uncertainty (Khandwalla ,1976)	Subjective - Perceived Environmental Uncertainty (Khandwalla ,1976)
Control Variables	CEO tenure, organizational size, prior firm performance	CEO tenure, organizational size, prior firm performance	CEO tenure (before and after), organizational size	Organizational size, time trend
Repeated Measures Design	Pre- and Post-Survey period accounting and stock market performance measures. Prior firm performance was controlled for.	Pre- and Post- Survey period accounting performance measure. Prior firm performance was controlled for.	Only post-survey period measures. No control for prior firm performance.	Only post-survey period measures. No control for prior firm performance.

TABLE 2
Descriptive Statistics and Correlation Analysis

Variable	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1. CEO Charisma	115.30	14.90														
2. Perceived Performance (pre-92)	17.06	4.84	.49**													
3. Adj.ROA (pre-92)	3.89	10.41	.14*	.19**												
4. Adj.ROE (pre-92)	3.76	16.51	-.11	-.01	.24*											
5. Adj.ROS (pre-92)	7.16	13.89	-.03	.03	.53**	.12										
6. AdjSales Growth (pre-92)	4.78	15.97	.24**	.38**	.01	-.02	-.02									
7. Stock return (pre-92)	3.77	19.53	.17*	.24**	.08	.07	.02	.17**								
8. Adj.ROA (post-92)	5.94	12.00	.11	.07	.56**	-.02	.44**	.06	.02							
9. Adj.ROE (post-92)	7.54	19.48	-.08	-.11	.01	.16	.02	-.06	-.01	.15						
10. Adj.ROS (post-92)	10.61	17.05	-.12	-.20	.33**	.03	.63**	-.12	-.05	.62**	.06					
11. Adj.Sales Growth (post-92)	4.44	15.44	.22**	.25**	.04	-.01	-.10	.06	.08	.16*	-.02	-.03				
12. Adj.Stock Return (post-92)	8.79	57.39	.05	.08	.22**	.04	.10	.02	.02	.33**	.14	.06	.26**			
13. Uncertainty	.13	.04	.04	.08	-.08	-.10	-.02	-.05	.01	-.05	-.05	-.06	.04	-.02		
14. Total Assets (in billions)	6.50	12.63	.07	-.05	-.05	.07	.01	.13	-.06	-.08	-.02	-.02	-.05	-.03	-.21**	
15. CEO Tenure (in years)	6.64	6.05	.14	.29**	.13	.18*	.05	.08	.22**	-.04	.08	-.07	-.05	.15*	.01	-0.09

The prefix Adj. denotes that the variables are industry-adjusted, n=128.

* p < .05

** p < .01

TABLE 3

**The Regression of CEO Charisma on Perceived, Stock Market, and Accounting Measures
of Prior Organizational Performance^a**

Predictor	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Total Assets	.07	.05	.04	.04	.04	.01
CEO Tenure	.02	.13	.12	.17	.15	.09
Perceived performance (pre-92)	.55**					
Adj. Stock Return (pre-92)		.27*				
Adj. ROA (pre-92)			.17*			
Adj. ROS (pre-92)				.12		
Adj. ROE (pre-92)					-.08	
Adj. Sales Growth (pre-92)						.37**
R ²	.31	.06	.04	.03	.02	.09
Adj. R ²	.29	.04	.03	.01	.01	.08
F-value	18.60**	3.42**	1.67	1.32	0.83	3.66**
n ^b	127	125	126	124	125	125

a - standardized regression coefficients shown.

b - All the results are based on a sample that was obtained after deleting observations that had r-student values of more than 2 (since our sample size is 128, as can be seen from the table, up to four outliers were deleted for different models).

* p < .05

** p < .01

TABLE 4
Regression of Subsequent Organizational Performance on Prior CEO Charisma^a

Predictor	Adj. Stock Return	Adj. ROA	Adj. ROS	Adj. ROE	Adj. Sales Growth
Total Assets	.01	-.11	.02	-.04	-.24
CEO Tenure	.04	-.12	.01	.08	-.08
Prior performance (pre-92)	.02	.49**	.75**	.11	.43**
Uncertainty	-.02	-.08	-.04	-.02	-.03
Charisma	.03	.11	-.07	.02	.06
Charisma x Uncertainty	-.03	.02	.01	.02	.08
R ²	.04	.27	.41	.06	.24
Adj. R ²	.03	.23	.38	.04	.21
F-value	.88	7.19**	12.77**	1.63	5.69**
n ^b	127	125	125	124	125

a - standardized regression coefficients shown.

b - All the results are based on a sample that was obtained after deleting observations that had r-student values of more than 2 (since our sample size is 128, as can be seen from the table, up to four outliers were deleted for different models).

* p < .05

** p < .01

APPENDIX

Varimax Rotated Factors	Factor Loadings	Cronbach's alpha	ICC(1)	ICC(2)	$r_{wg(I)}^*$
<i>Our Chief Executive Officer</i>					
<i>DYNAMIC LEADERSHIP</i>					
	.92	.85	.91	.82	
is dynamic	.83				
has the ability to excite a group of people	.82				
is charismatic	.82				
when communicating, drives to motivate with every word, story, and inflection	.76				
communicates an exciting vision of the future of the organization	.71				
paints an exciting picture of the future of the organization	.67				
<i>EXEMPLARY LEADERSHIP</i>					
	.90	.78	.89	.82	
is trusted by members of the organization	.79				
is respected by members of his/her top management team	.77				
sets a good example	.75				
provides a good model for me to follow	.70				
will not sacrifice his/her moral standards	.65				
has a clear understanding of where we are going	.61				
gives us the feeling that, succeed or fail, we are all in this together	.52				
<i>PERSONAL LEADERSHIP</i>					
	.91	.55	.91	.76	
gives me special recognition when my work is especially good	.87				
informs others in the organization when I do outstanding work	.83				
gives me positive feedback when I perform well	.83				
encourages me to feel positive about myself if I do an assignment especially well	.80				
demonstrates total confidence in me	.59				
looks out for my personal welfare	.57				
<i>LEADER EXPECTATIONS</i>					
	.66	.65	.81	.75	
expects me to give 100% all of the time	.79				
expects <i>less</i> than other supervisors with whom I have worked	-.75				
insists on only the best performance	.64				
<i>LEADER RISK</i>					
	.85	.63	.83	.83	
risks substantial personal loss in order to achieve his/her vision	.85				
has voluntarily risked a great deal on the success or failure of our mission	.84				

Bradley R. Agle (agle@katz.pitt.edu) is an associate professor in the Katz Graduate School of Business at the University of Pittsburgh, where he is also the Director of the David Berg Center for Ethics and Leadership. He received his Ph.D. from the University of Washington. His research interests include CEO leadership, stakeholder management, ethical leadership, measurement of ethics in organizations, and religious influences on business ethics.

Nandu J. Nagarajan (nagaraja@katz.pitt.edu) is a professor at the Katz Graduate School of Business at the University of Pittsburgh. He received his PhD from Northwestern University. His research interests focus on corporate governance, performance measurement and managerial incentives, and corporate restructuring.

Jeffrey A. Sonnenfeld (Jeffrey.sonnenfeld@yale.edu) is the Lester Crown Professor of Management Practice and Associate Dean of the Yale School of Management where he is also the President of the Chief Executive Leadership Institute. He received his doctorate, MBA, and AB from Harvard University where he previously served on the faculty for a decade. His research focuses on CEO leadership, succession, careers, and board governance.

Dhinu Srinivasan (dhinus@katz.pitt.edu) is an associate professor in the Katz Graduate School of Business at the University of Pittsburgh,. He received his Ph.D. from the University of Minnesota. His research interests include Corporate Governance, Performance Measurement and Incentives in Organizations, Non-financial Performance Measures, Design of Cost Systems and Cost Management.