

## Leadership quality and competency towards investor valuation and firm performance

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### ABSTRACT

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Leadership is one of the most important considerations when look up on a potential investment. As such, quality leadership also reflects the quality management as well as ensuring the success of the investment. Some investors view the quality of leadership, culture and the quality of relationships with core stakeholders as critical factors and become the important criteria when choosing companies to invest. Investors will seek what is really worth when making an investment which normally represents the value of the firm. It was learned that investors define the market value of the firm not just based on financial performance. They also gain more interest on intangibles like strategy, brand, innovation, research and development, collaboration and so on. In recent years, it was discovered that researchers also found a wise long term investors recognize that leadership also affects firm performance. This paper provides multiple reviews about the importance of the leadership behaviour as another discipline in firm valuation. It is expected that this paper will give more insight to investors where they are able to reduce the overall investment risk, improve the chances of investment success and build investors' and organizational confident.

#### Keywords:

Investors, Leadership, Firm Valuation

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## 1. Introduction

It is common for a firm to show its best performance to their investors and potential investors in order to increase the value of the firm. Commonly, the best medium to portray a firm's performance is through financial reports i.e. the financial performance. However, nowadays, this intangible (criteria) alone is not enough for the investors to measure the market value of a firm. The investors knew that if they rely only on the financial performance of the firm, the analysis made to value the firm sometime is misleading. From the perspective of the investors, a firm's value is a helpful measure of its performance because it takes into account the long-term interests of all the stakeholders of the

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company. Investors make an investment with the expectation that the value of each investment will generate profit as a reward for the risk they took [27]. Furthermore, it was evidenced by research that companies generating and maximising value for the shareholders eventually will also be creating more employment, treating their current and former employees better, giving their customers more satisfaction, and bearing a greater burden of corporate responsibility than their competitors [27]. Nowadays, investors are increasingly showing interest in leadership as a key differentiator when making investment decisions.

Since most organisation are managed by the leaders or C-suit executives, they are accountable to the stakeholders in regards to the company's performance. Investors now realise that a good leadership will boost the performance and outcomes of a firm, hence, the value of the firm. Evidently, investors allocated about 30% of their decision-making on the leadership quality [57]. Many researchers showed that leadership style has a significant relationship with organisational performance. Based on the book reviewed by Prasajo [44], good leaders are those who "blends extreme personal humility with intense professional will". They cast their ego away from themselves and focus instead on the larger goal of building a great company [44]. They are incredibly ambitious but their ambition is first and foremost for the institution, not themselves [44]. Besides, business leadership affects the moral capability and performance of the organisations [11, 18, 43, 54]. Furthermore, business leaders influence the scope and character of formal ethics programmes and the integration of ethics into everyday organisational life [10, 14, 43, 46, 60, 61].

However, leadership concept covers a lot of great aspects of leadership. The quality of leadership predicts intangible value which in turn produces financial results; unfortunately, the assessments of leadership are often haphazard and narrow [56]. Therefore, instead of relying on the analysis made based on the achievements of the firm's leader and rumours spread by the market players, a benchmark or criteria should be determined to help the investors in appraising the leadership quality. Ulrich [56], in his recent book, stated that investors may say "this leader is charismatic, has a vision, or treats people well", but there is little analysis of what has become a 'gut feel' approach to assessment among many investors. Hence, this implies that leadership assessments should revolve from isolated observations to a more rigorous analytics [56]. Therefore, to change a firm's valuation discussions from financials to intangibles to leadership requires synthesising massive studies and insights about leaders and leadership into a useable and simple leadership valuation solution [45, 56].

## **2. Premium Leadership: New Paradigm of Company Valuation**

General consensus agreed that a continuation and the success of each system and organisation depend on the appropriate management of its intellectual capital and leadership style [38]. There are different leadership styles with different impacts on the staff; thus, the organisations have been deliberated on selecting the most effective leadership style. It was held that an excellent global leader has a different leadership style that generates superior performance of an organisation by balancing four criteria of competing performance: 1) profitability and productivity; 2) continuity and efficiency; 3) commitment and morale; and 4) adaptability and innovation [42]. A competitive advantage of an organisation largely depends on the leadership skills that focus on key aspects that affect its reputation. Corporate reputation can be defined as the stakeholders' perceptions about an organisation's ability to create value relative to its competitors. It is considered to be one of the most important intangible resources of firms and a source of sustainable competitive advantage [36, 50] as cited in Roberson & Park, [49]. Stakeholders often see organisational reputation as the outcome

of a competitive process, as well as to maximise their socioeconomic and social status [42]. However, there are more than just a company's reputation to determine the value of an organisation.

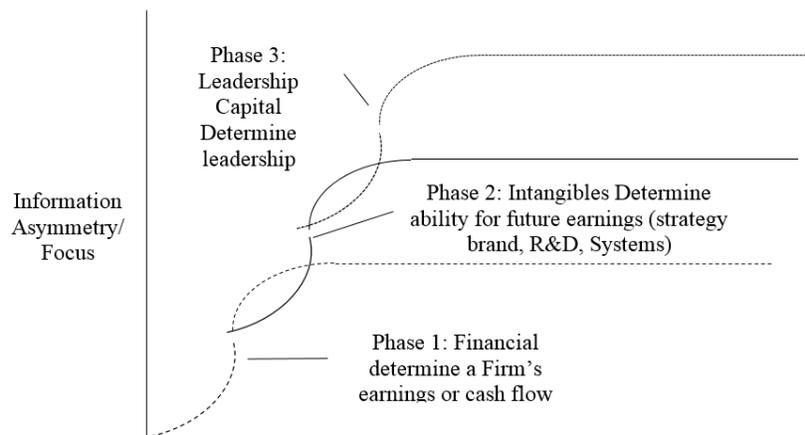
Recently, investors realised that the market value of a firm cannot just be based on its finance matters, such as financial reporting of earnings, cash flow, and profitability that follows the GAAP and FASB requirement [1, 19]. These financial outcomes actually have been found to predict only about 50% of a firm's market value [19]. Therefore, investors tend to show more interest in intangibles aspect, such as business strategy, innovation, brand, collaboration, systems integration, and so forth. Some researchers believe that further step taken by the investors tend to analyse the predictors and drivers of these intangible factors especially the leadership aspect [19]. This evolution of firm valuation is shown in Figure 1 as elaborated by Ulrich [56] in his book. Leaders of a firm are responsible in making strategic decision that will likely influence the organisational functioning [49]. More importantly, leaders in a firm are empowered with authority to make a decision that has a critical impact on the firm's performance. Therefore, a wise, long-term investors are aware that quality leadership becomes a predictor of intangible value which drives the growth of a firm [19].

In defining leadership capital, various literature provided their opinions. For instance, Northouse [40] defined leadership as "a process whereby an individual influences a group of individuals to achieve a common goal", while Nepstad and Clifford [39] stated that it is "a broad term that has cultural, social, and symbolic aspects". On the other hand, most analysts also agree that leadership capital is a way to interpret social or public judgment about individual skills, abilities, advantages, and achievements [9, 12, 53]. Meanwhile, Renshon [48] described leadership capital as a "combination of 'competence, integrity and capacities for leadership'" (p.200). The core of leadership capital is it helps to reflect the reality of leadership, which is the vigorous interaction between individual capabilities and contextual conditions that shape the leaders' ability to act both on their careers and legacies [9, 22, 23]. In addition, Petrick et al. [42] opined that when successful corporate leaders applied the global leadership style and substance skills, they were able to enhance the intangible asset of corporate reputation as well as leverage the global competitive advantage of the firm. From these literature perspectives, it can be said that leadership is vital as it promotes essential values that are crucial to the success of the organisation.

Leadership is regarded as one of the important elements for company valuation. Hence, the leadership capital index proposed by Ulrich [56] offers investors a comprehensive way of assessing leadership as part of a valuation process of a particular firm. This idea derived from the intersection between the leadership and the investors. In the context of leadership capital index, it is functioning like a grade or rating, which will measure a leader based on their quality or factors. From the leadership standpoint, they want to add value to those inside or outside the organisation; whilst from the investors' perspective, they want to reduce risk by managing and understanding the leadership. The concept of leadership capital index identifies two domains of leadership, namely individual behaviour and organisational capabilities [57]. The individual behaviour focuses on the personal qualities of leaders within the organisation. Investors can assess personal leadership competencies through observations, interviews, general reputations, surveys, and demonstrated behaviours. Ulrich [56] pointed out that there are five leadership factors delineate the individual elements of a leadership rating index: personal proficiency, strategist, executor, people manager, and leadership differentiation. For the second domain namely the organisational capabilities, investors can assess the capabilities that are shared inside and outside the organisation in terms of core competencies, organisation systems, culture, archetypes and resources [56]. This organisational capability also has five elements to build future leaders embedded with an organisational culture that shaped by culture capability: talent, performance accountability, information, and work. All domains described in

individual and organisational capabilities can be used by investors to inform their valuation decisions and human resource professionals to enhance their impact [57].

As shown in Figure 1, investors who do a better assessment of leadership will create information asymmetry for themselves and make a better investment decision. The figure reflects how the work on valuation is moving toward an assessment of the quality of leadership (leadership capital) that underlies and creates intangible and leads to financial results [56]. This was started when history shows that investors evaluate financial information of a firm, for example, the company earnings and cash flows for the process of their company evaluation. And these days, investors are creating metrics for the intangibles such as brand, recognition, strategic clarity, innovation index, and so forth. The firm valuation is then shifted from intangibles move beyond the financial information and proceed almost inevitably to the inclusive of leadership.



**Fig. 1.** Evolution of Firm Valuation. Adapted from The Leadership Capital Index: Realising the Market Value of Leadership, p. 20 by Ulrich [54].

A good leadership quality and competency have a big impact on the firm. This was evident from the survey by Deloitte [13], who found most investors view leadership effectiveness as more important than earnings forecast and ratio analysis. On the other hand, some analysts do not view financial performance utterly important. They thought it is only a result and what is more important for them is the long term potential values, namely a good performance from a good leadership. The survey also revealed the majority of analysts routinely assessed the leadership strength in their company valuations. In a study about the relationship between leadership reputation and economic performance of the organisation revealed that organisations with a recognised leadership reputation outperformed their competitors in three critical areas, namely the revenue, net income, and share price. Thus, supported the assumption that leadership reputation potentially builds the organisational economic value [35]. Similarly, Lourenco et al. [30] found that organisation with a sustainable leadership reputation received a higher valuation compared to their counterparts. There are prior studies which predominantly acknowledge the individual leader competencies as compared to the financial results towards organisation as shown in Table 1

**Table 1**

Example of studies on individual leader competencies and financial results

| Study Author or Sponsor                                 | Key Question   | Key Findings  |
|---|--|---|
| Geoffrey Smart and colleagues                           | <i>What are the leadership skills investors should look for the private equity (PE) deals?</i>   | <ul style="list-style-type: none"> <li>• Leadership has a major impact on the success of financial deals.</li> <li>• Harder skills (persistence, efficiency) were more important than softer skills (teamwork, listening).</li> <li>• The more time PE firms spend on leadership issues, the more successful the deals.</li> </ul>  |
| Deloitte  | <i>What do investors look for an individual leader?</i>  | <ul style="list-style-type: none"> <li>• By interviewing 450 analysts, they conclude that leadership gives a firm 15% premium or 20% market discount.</li> <li>• Leaders need skills in strategic clarity, strategy execution, culture innovation, and moral courage.</li> <li>• The analyst did not have strong consistency in what to look for in leadership.</li> </ul>                    |
| McKinsey Consulting                                     | <i>How do investors include management evaluation in due diligence and after an acquisition?</i> | <ul style="list-style-type: none"> <li>• Management assessment is a key to operational value creation when PE firms make an acquisition.</li> <li>• PE firms generally act too late to assess management.</li> <li>• Management may be assessed through many tools (structured interviews, personality profiling, observations, and surveys).</li> </ul>                                      |
| Spencer Stuart and National Venture Capital Association | <i>How does venture capitalist consider management team?</i>                                     | <ul style="list-style-type: none"> <li>• Based on 200 surveys, the venture capitalist said that management was the most important consideration to funding venture (37% of the decision).</li> <li>• Leaders should have ethics and integrity, manage talent, set visions, and know the industry.</li> <li>• About 65% of venture capitalist assess management before acquisition.</li> </ul> |
| Bruce Avolio and Susan Dunn                             | <i>What is the impact of leadership stock price?</i>   | <ul style="list-style-type: none"> <li>• Based on surveys of 350 analysts, top management team affected stock price 16% (3 years of organic growth).</li> </ul>   |
| Corporate Branding LLC                                  | <i>How much would analysts want to pay attention to leadership?</i>                              | <ul style="list-style-type: none"> <li>• Analysts pay attention to trace record, reputation, and presence.</li> <li>• 80% of analysts said that they would like more accurate information on leadership to make decisions.</li> </ul>   |
| Ted Prince  | <i>How do personal styles of leader affect financial results?</i>                                | <ul style="list-style-type: none"> <li>• Different personality styles (e.g., Myers-Briggs, Hartman Personality Profile, and the Hermann Brain Dominance Instrument) enable leaders to be more effective.</li> <li>• Conscientiousness affects financial performance more than openness to experience.</li> </ul>  |

Adapted from The Leadership Capital Index: Realising the Market Value of Leadership p. 32 by Ulrich [54].

Linking the function of leadership in the organisation according to investors' expectations is part of the process of understanding leadership capital. Warren Buffet, in his annual shareholder letter, wrote about leadership as follows (cited in Ulrich [56]):

2007

"A terrific CEO is a huge asset for any enterprise...at Berkshire...their abilities have created billions of dollars of value that would never have materialized if typical CEOs had been running their businesses."

"But if a business requires a superstar to produce great results, the business itself cannot be deemed great."

2010

"An outside investor stands by helplessly as management reinvests his share of the company's earnings. If a CEO can be expected to do this job well, the reinvestment prospects add to the company's current value; if the CEO's talents or motives are suspect, today's value must be discounted. The difference in outcome can be huge."

2011

"The primary job of a Board of Directors is to see that the right people are running the business and to be sure that the next generation of leaders is identified and ready to take over tomorrow."

In a nutshell, an effective leadership is crucial to the organisational success and a key component of all levels of jobs in an organisation [24]. As for investors, leadership capital index serves as a useful method in understanding the strengths and weaknesses of leaders during the company valuation process. The leadership capital index helps to spot the key variations in the nature and aggregate volume of leadership capital that enhances the perceptions and performance indicator [9]

### **3. Malaysian scenario on Leadership Competencies and Firm's Performance**

Leadership competencies and firm's performance is an interesting area to be explored in Malaysia to overcome stereotypes perceptions that are widely held in the society and corporate world [20]. This is illustrates in Malaysian scenario shows three major ethnic groups which are Chinese that recognised as the group who shines in business activity, while Indians are prevail in legal and medical fields, whereas the Malays are in majority lead the public sector and hold senior positions in the government-linked or controlled firms [45]. Historically, the ethnic segregation according to professions and sectors legacy is a result left by the British colonisation. Subsequently, after independence in 1957, this has led the government during that time to create "New Economic Policy" in 1971 with the aim to acquire some proportion of shares in public listed companies for the Bumiputeras. The policy also entails various affirmative actions, such as low-cost loan, the inclination of Bumiputera-owned firms on government contracts and university admissions. Even though these policy were considered as temporary in 1971, the implementation is still continued until 2010 when the Government decided to implement more inclusive social policies. Thus, along the four decades of time shown a state-sponsored discrimination and economic development is likely to have the consequences on the essence of Malaysian CEOs'. Previous scholar asserted that firms that are politically influenced tend to be inefficient and have a higher cost of debt [45]. Since most politically connected firms in Malaysia are listed companies, consequently, it is likely that this type of companies have a weaker performance than its counterpart.

Investors are likely to opt for high performing firms since they believe that this firms are able to generate a variety of company and society benefits, such as wealth creation, attracting resources and employment opportunity [32]. Therefore to evaluate firm performance, it requires accurate measures to discover factors that can affects performance and how it can assist firms to arrange resources, develop better strategies, meet consumer expectations and compete in the market. Conversely, if performance measurement is inappropriately conducted, it will mislead the results that lead to a poor competitive position. The leadership behaviours can have a strong impact on the innovativeness and firm performance. Business has become globally competitive and it needs new vision and directions in order to remain sustainable and more competitive [33]. For that reason, leadership behaviours would play a vital role in ensuring the organisation's direction and providing a clear vision to be shared among employees at all level in the organisation. As found by Rachagan et al.[45], researched on both publicly listed and private firms in Malaysia found that there are a significant and positive association between the CEOs' organisational commitment with their firms' performance, the issues of importance to their companies and their concern for the effectiveness of public policy. Previous studies also mentioned that of all leadership behaviours, transformational leadership is found to have a significant contribution and has a stronger relationship [3] to forecast organisational performance, compared to transactional leadership which seems not to be a good predictor to measure organisational performance [3, 62]. Transformational leadership is defined as a process whereby leaders employ the collective interest of an organisation and its employees to achieve outcomes beyond ordinary performance [8]. Leaders also able to affect and transform the organisation by showing the employees on the importance of a task and its value, promote interest on the organisation's goals instead of personal benefits and focus on their higher-order needs [8].

Leaders who employs transformational leadership behaviours should be able to encourage a higher performance within their firms compared to transactional leadership [3]. This is proven in the study by Arham [3] stated that Malaysian SMEs leaders recognise that their ability to exercise transformational leaders practice could motivate and encourage higher performance outcomes, improved growth and profitability of a firm. Hence, this give signals to Malaysia where more focus should be carried out to instil the qualities and attributes of transformational leadership amongst all organisational leaders in this country. This requires a better understanding of leadership behaviour and its impact towards organisational performance in the beginning to ensure the success of organisation in the future. This is because, one of the essential factors that influence firm performance is the management's leadership behaviour since different leadership style may stimulates different effect on firm performance [3].

A study demonstrated that not only leader-member exchange is positively associated with the performance of the organisation but the leaders' emotional affections also have a vital role in organisational performance that could be improved if the followers feel more comfortable and there is a good relationship exist between the followers with their leaders [34]. Therefore, leaders and followers need to strong bonds and togetherness to reach the organisation's mission and objectives. It is anticipated that the leaders of next generation able to demonstrate an executive maturity to incorporate innovative firms as well as to retain high potential employees [55]. This could be achieved when leaders develop mature mind-set in five dimensions which are lead the people; to think beyond their own roles, view business problems holistically, be strategic thinkers, and be scalable across functions. These dimensions are deemed suitable not only to be practiced in multinational corporations as it can train leadership and drive them out of their comfort zones, since high potential leaders must have the ability not only adapt to and cope with change but also to drive change [55]. Hence it is great to foresee next generation of leaders in Malaysia with the capability as change agents because they need to be able to drive their organisations forward regardless of the disruption,

volatility and other challenging business landscapes. Initially, high potential leaders need to be identified at all levels and positions in the organisation so that, a future quality and innovative leaders could be extracted [55].

**Table 2**  
Top Business Leader in Malaysia

|    | <b>Leader</b>           | <b>Industry/Company</b>  |
|----|-------------------------|--|
| 1  | Syed Mokhtar Al-Bukhary | <i>Albukhary Corporation Sdn Bhd</i>   |
| 2  | Tony Fernandes          | <i>AirAsia Berhad</i>  |
| 3  | Ananda Krishnan         | <i>Maxis Communication Bhd</i>   |
| 4  | Lim Kok Thay            | <i>Genting Berhad</i>  |
| 5  | Liew Kee Sin            | <i>SP Setia Berhad Group (up to April 2014), Qinzhou Development (Malaysia Consortium Sdn. Bhd. (present))</i> |
| 6  | Shahril Shamsuddin      | <i>SapuraKencana Petroleum Berhad</i>  |
| 7  | Nazir Razak             | <i>CIMB Group Holdings</i>   |
| 8  | Francis Yeoh            | <i>YTL Corporation Berhad</i>  |
| 9  | Quek Leng Chan          | <i>Hong Leong Group</i>  |
| 10 | Azman Hashim            | <i>AmBank Group</i>  |
| 11 | Azman Haji Mokhtar      | <i>Malaysia Sovereign Wealth Fund, Khazanah Nasional, Iskandar Investment and Axiata Group</i>                 |
| 12 | Zamzamuraini Mohd Isa   | <i>Telekom Malaysia Bhd</i>  |
| 13 | Abdul Ghani Othman      | <i>Sime Darby Bhd</i>  |
| 14 | Robert Kuok             | <i>Kuok Group</i>  |

**Table 3**  
The number of directorships among Malaysian top business leaders.

|    | <b>Leader</b>           | <b>Number of Directorship</b>  |
|----|-------------------------|--|
| 1  | Syed Mokhtar Al-Bukhary | <i>Connected to 1 Board members in 1 different organisation across 2 different industries</i>                                    |
| 2  | Tony Fernandes          | <i>Connected to 40 Board members in 10 different organisations across 11 different industries</i>                                |
| 3  | Ananda Krishnan         | <i>Connected to 0 Board members in 0 different organisations across 1 different industries (owner of Maxis Mobile Sdn. Bhd.)</i> |
| 4  | Lim Kok Thay            | <i>Connected to 69 Board members in 13 different organisations across 18 different industries</i>                                |
| 5  | Liew Kee Sin            | <i>Connected to 11 Board members in 1 different organisation across 2 different industries</i>                                   |
| 6  | Shahril Shamsuddin      | <i>Connected to 20 Board members in 4 different organisations across 5 different industries</i>                                  |
| 7  | Nazir Razak             | <i>Connected to 73 Board members in 5 different organisations across 10 different industries</i>                                 |
| 8  | Francis Yeoh            | <i>Connected to 2 Board members in 2 different organisations across 3 different industries</i>                                   |
| 9  | Quek Leng Chan          | <i>Connected to 72 Board members in 16 different organisations across 19 different industries</i>                                |
| 10 | Azman Hashim            | <i>Connected to 66 Board members in 15 different organisations across 16 different industries</i>                                |
| 11 | Azman Haji Mokhtar      | <i>Connected to 3 Board members in 3 different organisations across 7 different industries</i>                                   |
| 12 | Zamzamuraini Mohd Isa   | <i>Connected to 26 Board members in 3 different organisations across 3 different industries</i>                                  |
| 13 | Abdul Ghani Othman      | <i>Connected to 25 Board members in 3 different organisation across 3 different industries</i>                                   |
| 14 | Robert Kuok             | <i>Connected to 1 Board members in 1 different organisation across 1 different industries</i>                                    |

*(Data as of 16 June 2016 by Bloomberg)*

The Macropolis [31] made an announcement on their executive survey about the rank of top business leaders in Malaysia through the New York Times Euronews on 27th April 2015. The survey was conducted among the top businessmen in Malaysia. Even though there is a significant relationship between the businessmen's wealth and top businessmen in this survey, it was not the only criterion being evaluated. The interviewees also considered some other criteria they felt important to become a good leader of a company. Among the criteria considered were the leader innovation inspiration, a wide range of endeavours and the philanthropy as recognised by the business world [31]. On top of that, their strong work ethic and genuine impact on Malaysian people were also among the factors considered by the interviewees. Based on the findings of the executive survey, the list of personalities that voted as top leaders by the interviewees was publicised as in Table 2. These leaders proved their leadership quality by becoming a member of directorship in different organisations and even across different industries. Their individual attributes and abilities made them highly marketable and in demand by organisations and the industry.

#### **4. Leadership Impact towards Investor Valuation Investor Valuation and Firm Performance**

All organisations require leaders who are capable of steering people in the right direction to achieve its mission, vision, and to remain faithful to the philosophy and values of the organisation. Leadership is important to the organisation's success and business performance especially in a competitive environment in which the firms are presently operating [26]. Studies have revealed that the performance of organisations is influenced by the leadership styles of the leaders in the organisations. The study of leadership styles principally focuses on transactional and transformational styles introduced by Bass [8] since both are regarded as novel approaches [28]. According to Rowold [51], between these leadership style, transformational leadership considered as the most critical style of leadership because this type of leaders are mostly able to influence subordinates through an assortment of behaviours that can change the subordinates' values, hence enable them to achieve an outstanding job performance. Transformational leaders encourage positive attitudes to employees and motivate them to innovate and take challenges. Meanwhile, transactional leaders enable organisations to effectively apprehend the organisation's objectives by rewarding job performance and guaranteeing employee resources while carrying out their duties [51].

Previous research provides numerous evidence to substantiate the relationship between leadership styles and performance and these include some evidence from Malaysia. For example, a study revealed that transformational leadership demonstrated by CEO of business firms in Malaysia is significantly related to financial performance and this relationship is mediated by best practice management [25]. This is in line with earlier research which showed transformational leadership has positive effects on financial result such as Barling et al. [7]. In another study, Aziz [6] tried to determine how different leadership styles may affect business performance of small and medium enterprises in Malaysia. It was found that leadership styles (both transformational and transactional) have a positive significant relationship with business performance; however, transformational leadership has a higher influence than transactional leadership. In fact, a study found that followers achieved better results under transformational leaders than other types of leadership styles [15].

In addition, several studies also found that transformational leadership has a positive influence on job satisfaction [2, 47]. This view is supported by Emery and Barker [16] who found that transformational leaders will positively increase the level of employees' satisfaction and sense of accomplishment with their job because they encourage and motivate the employees to take more responsibilities. Similarly, a study by Voon [59] showed that transformational leadership style has a

greater relationship with job satisfaction than transactional leadership among employees in public sector in Selangor, Malaysia.

In contrast to all the positive associations found between a leadership style and organisational performance, few researchers also discovered that a leadership style has no impact or negatively associated with organisational performance. For example, a study found a negative relationship between transactional leadership and the performance of small companies in Chile [34]. In the Malaysian context, May-Chiun et al. [34] suggested that transactional leadership style did not have any significant impact on the performance of financial services companies in Malaysia.

In short, past studies revealed a diverse outcome of the association between leadership and performance. This could be due to those studies only examined a few leadership paradigms (e.g. transformational and transactional style) while ignoring the potential role of other paradigms. This implies that different leadership style affecting the performance differently, which also depends on the context and setting. Behavioural theorists tend to ignore the significance of situational factors in identifying the effectiveness of individual leaders [37]. There could be mediating factors that lead to different outcomes. For example, Ogbonna and Harris [41] found that leadership style is not directly linked to performance; they were indirectly associated and this association is mediated by the organisational culture.

In relation to that, researchers of late have been expanding their scope of studies on leadership styles. For example, Avery [4] proposed the classical leadership and organic leadership as additional paradigms to the existing transformational and transactional leadership. Classical leadership refers to dominance by a pre-eminent person or an elite group and the followers who execute orders out of fear or respect to this elite group. Meanwhile, organic leadership refers to reciprocal actions among team members who work together regardless of their position and power. A study on small Australian firms reported that organic leadership is associated with a higher performance level on all measures (i.e. staff and customer satisfaction, financial outcomes, productivity, and both staff and manager tenure) as compared to the traditionally high-performing visionary (transformational) leadership paradigm [5]. Another kind of leadership style that has gained a significant interest lately is servant leadership. Servant relationship is almost identical to transformational leadership but with an additional moral dimension. Servant leader models serviced by humbly and ethically serving his or her followers rather than expecting to be served by these followers [17]. Another study also found that CEO servant leadership predicted subsequent firm performance as it is measured using return on assets [52]. Similarly, in Malaysia, a study by Abu Bakar and McCann [29] revealed that servant leadership was positively and significantly associated with the workgroup manager's rating of group member's performance.

Despite numerous research conducted on leadership and performance, the lengthy debate of "the best way to lead" will continue and create more gaps and unanswered questions. Different leadership styles on top of various performance measurements used by the researchers are making it more difficult to do a comparison between studies as well as to generalise the results.

## **5. Conclusion**

The global economic downturn and the scandals involving reputable organisation have changed the investors' mind to value the capability of an organisation. Therefore, the role of a leadership becomes the key issue regardless of the economic condition. Although the financial information and intangible factors are still relevant and used in the evaluation of the organisation, they are not enough to guarantee the organisation performance as expected by the investors. This is because relying on financial performance alone does not describe the financial results truthfully. Many

reported cases have shown that some of the management may fraudulently report the financial information, and this misleading or inaccurate information, then, is disseminated to investors, stakeholders and the public. The manipulated financial information (to show that the organisation are performing well) might be used as an effective way to please the stakeholders, whereby, in reality, it was otherwise.

In the assessment of organisation valuation for investment, some investors may focus on the financial returns or intangibles or both and ignore the leadership aspect. In contrast, a wise investor may foresee the long-term returns and decide that leadership matters [57]. The essence of various literature as discussed above acknowledged the importance of people and leadership as the driver of organisational value. A good leadership unleash their full potential of positive attributes and traits such as productivity, creativity, motivation, and so forth. In contrast, bad leadership may be projected the opposite of those positive attributes and traits of quality leaders.

The study related to the requirement and the effectiveness of leadership capital is still scarce and call for more exploration. Therefore, further study in this area is necessary to discover more knowledge about the dynamic consideration to value and grade the leaders. It is also necessary to reveal other potential issues especially in Malaysian conglomerate, government-linked companies (GLCs), family-owned businesses and others.

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