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# Why Do We Need to Examine Leadership Concepts and Styles in Finance? Literature Overview

**Nikita Kurdyukov**

Research Intern, Corporate Finance Center, School of Finance,  
National Research University Higher School of Economics, Moscow, Russia,  
nkurdyukov@hse.ru, [ORCID](#)

## Abstract

In the contemporary world, leadership concepts are associated with managerial literature. As a rule, scholars define a leader as a person with a certain set of positive characteristics that enable them to lead people and contribute to the successful development of a company. However, the concept of financial efficiency has to be factored into the effective development of a company. At the same time, personal characteristics of top managers, such as overconfidence, narcissism, excessive risk-taking, usually have a negative connotation in financial literature.

This review includes a study of the development of various leadership concepts in management-related literature. The leader's main personal characteristics are highlighted according to the literature. It also explores the relationship between the concepts of a leader and a manager. The literature devoted to the relationship between the concept of a transformational leader and company performance has also been studied.

The key conclusion of this literature review is that certain personal characteristics of top managers can have a positive effect on a company's performance if they are considered from the point of view of transformational leadership. This confirms the need for a deeper study of the relationship between managers' personal characteristics and a company's financial efficiency, especially in the context of sustainable development and the concept of transformational leadership.

**Keywords:** leadership, leadership concepts, leadership styles, transformational leadership, management, managers' personal characteristics, company performance

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## Introduction

Today, the concept of a successful top manager is becoming one of the key and most hotly debated areas of research. Scholars examine an extensive list of managers' characteristics, including different personality traits, such as age, gender, education, and tenure, as well as behavioral traits, such as overconfidence, narcissism, risk-taking, and so on. Depending on the perspective of the reviewer, the presumed impact of these traits on decision-making and performance may be completely different.

Management-related literature often refers to the topic of leadership. Considering a specific top manager – not as a successful manager but as a leader who determines the vector of a company's development – we find that a completely different list of personal characteristics comes to the fore. However, the issue of leadership is still extremely debatable. Who is a leader in the modern context? How can we identify them? What qualities should they possess in order to contribute to the successful operation of a company in such a complex and unstable world? And an especially important question is: how could these leadership concepts be applicable in the field of financial research?

The most complicated issue is that the significance of certain characteristics under specific conditions cannot be extrapolated to other circumstances. Various other factors, such as cultural characteristics, a company's organizational structure, corporate culture, the scope of company activities, and so on, need to be considered. However, at the same time, it is worth noting that the portrait of a leader of the future, capable of sharing their ambitions with subordinates through inspiration and motivation, is already very similar to the concept of a transformational leader. This concept is especially relevant today, when the idea of corporate transformation for the sake of sustainable development comes to the forefront. It is also important to examine whether the company's activity depends on a particular type of leader, and if it does, how this dependence can be measured using the existing financial metrics.

However, in order to define the leader of the future, it is necessary to trace the history of development of the leadership concept in financial literature. It is important to move on from the analysis of various theories to understanding and identifying a leader with a particular style. It is also significant to clarify how a manager differs from a leader and what features become especially relevant for the emergence of a new type of CEO.

The paper examines the evolution of the theory and leadership styles that prevail in academic literature on management. The relationship between the transformational leader and firm performance, which, in turn, is especially relevant for research in the field of finance, is also considered.

## Leadership Theories

### Trait Theory

The debate on whether leadership involves a certain set of qualities and characteristics acquired within a professional lifetime has always been relevant. A number of research-

ers do agree that despite the lack of explicit scientific justification, the theory of the great man can be considered relevant to this day [1]. The position of the leader changes, being transformed from that of a hero to that of a "savior" CEO with innovative views, capable of fully influencing the development and vision of the company [2]. Researchers believe that a true leader possesses a certain set of traits that can help identify and clearly distinguish them from a non-leader. Scholars have examined a variety of such traits. Conventionally they could be divided into those that are inherited, such as height, weight, facial features, sense of humor, intelligence and self-confidence, and those that one acquires directly through life experience, such as scholarship, knowledge, and work experience [3]. However, this conceptual approach has been criticized because similar traits can be found in leaders and their followers. At the same time, some studies find a correlation between traits and leadership [4].

The trait theory was pushed forward after the development of the Five-Factor Model of Personality (FFM) and the establishment of its relationship to leadership [5]. This model is one of the most widely used tools that allow to reflect on and explore the characteristics of the human personality [6; 7]. It includes:

- Extraversion.
- Agreeableness.
- Conscientiousness.
- Neuroticism (opposite of Emotional Stability).
- Openness to Experience (Intellect).

These characteristics may or may not be inherent in an individual to varying degrees, and are measurable. At the same time, they do not influence each other and are not interrelated. Thus, McAdams [8] states that this model can be applied to the study of personality issues, but agrees that it is not an exhaustive description of human personality. In his review of this model, Bass [9] reveals how each trait can be characteristic of a leader, which allows FFM to be used to develop the trait theory. To corroborate this view, Judge et al. [4] found a strong correlation between FFM traits and leadership criteria. This means that characteristics such as leader emergence or leadership effectiveness can be studied using FFM.

### Contingency Theory (Situational)

The main criticism of the trait theory refers to the manifestation of many personal characteristics at a specific time in a specific place. For this reason, the situational leadership theory has spread, claiming that a leader's characteristics depend on a number of different circumstances. Moreover, at times when certain skills may be needed, others may be irrelevant. Of course, this can be countered with the argument that a true leader must have a complex set of necessary skills that will make them a leader in any situation, and that the ability to adapt directly to current circumstances is also one of the key leadership qualities. However, one of the main assumptions of this theory is the significant relationship between the leader and the subordinates.

It states that leadership qualities and the leader themselves do not develop individually, but in tandem with their subordinates. Moreover, adaptability is not a special trait of a leader, but merely the ability to switch between different traits depending on external factors. Thus, the success of a leader largely depends on their ability to build the right mechanisms for interacting with their team [10].

### Style and Behavior Theory

The researchers specifically aimed to identify the ways in which a leader's behavior directly affects company performance and satisfaction of the subordinates. The scholars attempt to investigate the leader's interaction with their subordinates, especially the decision-making process [11]. Yukl identifies three main types of leader behavior: *task-oriented* behavior aims to improve the existing problem-solving efficiency; *change-oriented* behavior helps to overcome the difficulties that emerge in new adaptive conditions; *relations-oriented* behavior is aimed specifically at strengthening the connection between the leader and the team [12].

A key feature in the development of behavioral leadership theories was the view of leadership skills as a set of acquired qualities that an individual can potentially develop, rather than inherent traits. This means that almost any manager can potentially become a successful leader. The key task set by the researchers was to identify these characteristics. However, the main difficulty lies in the fact that different circumstances require different characteristics. Moreover, it is also important to consider the leader's well-being. For example, a change-oriented or relations-oriented leader may be more unstable in terms of personal satisfaction than a task-oriented leader [13].

### Servant Leadership Theory

In the early 1970s, a new theory was put forward, and the concept of a servant leader was formed. This is an empathetic leader who is focused on the problems, anxieties and experiences of their subordinates. The main task of such a leader is to help their subordinates gain independence, new knowledge, and inner satisfaction [14; 15]. However, it is worth noting that scientists today are questioning the servant leadership theory. There is not even a generally accepted definition of a leader of this type. Also, this theory requires a clear understanding of the research context. Another factor is the extensive list of metrics used to explain this type of leadership. However, the important thing is that this type of leadership can be one of the most effective if the main aim is to improve the conditions and satisfaction of subordinates, [16].

### Transactional theory

The transactional theory of leadership is also based on the interaction between the leader and their subordinates. Here, the leader acts as an overseer and controller of the subordinates' activities, and the effectiveness of interaction is precisely achieved through the mechanism of incentives and checks [9; 17–18], which is why this theory is also

called the *management theory*. Here, the leader achieves maximum efficiency through a clear understanding of the current task, as well as through a clear formulation of this task to subordinates. The leader must also monitor and control the activities of their subordinates. The main goal of leadership is to achieve the goals of the organization. At the same time, it is also necessary to concentrate on the balance between employee satisfaction and productivity, but, once again, this is achieved mainly through rewards and punishments [19; 20]. It is also worth noting that the transactional theory of leadership has formed the basis of managerial practices for effective management [21], and that it is one of the most popular approaches in modern research [19].

### Transformational leadership theory

The most relevant and popular theory today is the theory of transformational leadership. Its foundations were laid by Burns [22] and developed in the work of Bass [9], and it also considers the relationship between the leader and the followers. However, in its case, the cornerstone of these relations is the leader's ability to motivate their subordinates with their personal qualities. A leader's charisma enables them to inspire their followers, thereby increasing the latter's motivation to achieve goals. Leaders are endowed with certain qualities, such as charisma, optimism, confidence, and extraversion. Moreover, the leader must have their own vision of the company's future, and be able to share this vision with their subordinates [17; 23–25]. Here, an important component is the formation of a sense of unity among subordinates and work for the benefit of a future ambitious goal, rather than the understanding of the need to complete the current task in exchange for a reward. The theory of transformational leadership is now by far the most widely discussed [26; 27], with a large number of created metrics and consideration of various factors. But the interaction mechanisms and the very transformation of subordinates still need to be confirmed and explained [28].

## Leadership styles

### Multifactor Leadership Theory and main leadership styles

However, having dealt with the key theories from an ideological perspective, the researchers faced the key issue of developing the metrics required to identify a particular type of leader and subsequently explore the impact of a particular leader on various company characteristics, such as performance, employee satisfaction, innovative activities, etc. Moreover, outdated theories did not offer clarity in regard to leader identification; they also basically described the relationship between the leader and the team in a rather abstract way. Furthermore, the main emphasis was placed on the study of leadership in organizations where everything came down to evaluating the effectiveness of the subordinates' performance [29]. At the same time, certain motivation-related factors, other than monetary rewards or promotions, were not examined. Exploring other mech-

anisms of interaction between a leader and subordinates, [30] formed the concept of a transformational leader, and later developed the *Multifactor Leadership Theory* (MLT), which includes three main leader types: transactional, transformational and laissez-faire. According to this theory, almost every manager or director could be identified as a leader of a certain or an adjacent type [31; 32].

The Multifactor Leadership Questionnaire (MLQ) proposed by Bass & Avolio [33] became an instrument that allowed to identify the type of leader and has gained great popularity among scientists due to its theoretical validity, as well as applicability for empirical research. Hargis et al. [34] identified the three main factors of MLQ acceptability:

- Ability to identify the three main types of leader behavior: transformational, transactional, and non-leadership (or laissez-faire).
- Despite criticism [35], the model finds support in the scientific community [17; 36–38].
- This model also studies the skills that can be acquired through learning; moreover, these skills can have a significant effect on the activities of a group or enterprise [39].

MLQ is a survey form that respondents fill out, answering questions related to their leader (typically their supervisor).

### Transformational Leadership style

As previously described, the early transformational type of leader is directly associated with the ability to motivate and inspire subordinates to perform more ambitious tasks. In other words, we can say that the transformational leader is focused on the organization's long-term prospects, they are ready to explain the importance of the decisions made to achieve the needed result by their own example [20]. Most scientists are inclined to believe that there are four main patterns, which together form a transformational leader [40–42]:

*a) Charisma or Idealised Influence* has to do with creating a kind of a role model leader for the subordinates, whom they are willing to follow unconditionally. Even at times of major transformations within the company, subordinates trust their leader and are willing to share their vision [40; 43]. This trait is often compared to charisma [44]. However, charisma is more of an abstract concept, and, depending on the field of knowledge, it can take on completely different meanings.

*b) Inspirational motivation* is also related to employee motivation, but in contrast to individual motivation (increasing personal well-being or receiving praise), here motivation appears through a sense of belonging to something greater, namely to the company [40]. Moreover, we also believe that in this case employee motivation transcends personal barriers and achieves a set of higher goals. This is accomplished through motivational or public speeches, where the leader demonstrates confidence or optimism regarding common goals and ideals. In this context, confidence and optimism may not act as behavioral biases that lead to

negative consequences, but rather, confidence in their decisions increases the employees' desire to overcome themselves and achieve previously unattainable goals through engagement and enthusiasm [45].

*c) Intellectual Stimulation* refers to the leader's ability to encourage subordinates to perform certain tasks. It can be additional non-material motivation, i.e., the leader may be able to offer a new vision of a seemingly unsolvable problem. Also, the important point here is that the leader should hear and understand their subordinates properly in order to individually leverage each of them [40; 43].

*d) Individualized Consideration* also expands the notion of an individualized approach to each of the subjects. In order to competently achieve the set goals, the leader must clearly analyze the weaknesses and strengths of each subordinate. An individual approach to motivation is also required. The leader must be able to sense when and in what form encouragement is necessary. All of these things together help subordinates to feel valued and to achieve their goals [40].

In his article, Hay [40] also summarized the main identifying characteristics of a transformational leader:

### Characteristics of transformational leaders:

- clear sense of purpose, expressed simply (e.g. metaphors, anecdotes);
- considerate of employees' personal needs;
- value driven (e.g. have core values and congruent behavior);
- listens to all viewpoints to develop spirit of cooperation;
- strong role model;
- life-long learners;
- high expectations;
- identify themselves as change agents;
- persistent;
- enthusiastic;
- self-knowing;
- able to attract and inspire others;
- perpetual desire for learning;
- strategic;
- love work;
- effective communicator;
- emotionally mature;
- courageous;
- risk-taking;
- risk-sharing;
- visionary;
- unwilling to believe in failure;
- sense of public need;
- mentoring.

- able to deal with complexity,
- uncertainty and ambiguity; *Source*: [40].

### Transactional Leadership style

Yet another approach to leadership is the transactional, or managerial, leadership style. As described above, a transactional leader uses a system of rewards and punishments as a formal force to achieve optimal control over their subordinates [17]. According to the Bass [30], a leader of this type can be described by the following four basic characteristics:

- 1) *Contingent Reward*: Offers an exchange of rewards for effort, promises rewards for good performance, recognizes accomplishments.
- 2) *Management by Exception (active)*: Watches and searches for deviations from rules and standards, takes corrective action.
- 3) *Management by Exception (passive)*: Intervenes only if standards are not met.
- 4) *Laissez-Faire*: Abdicates responsibilities, avoids making decisions.

### Successful Manager versus Leader

It is also important to understand whether there is a difference between a successful manager and a successful leader. In leadership studies, the role of the CEO or a member of the top management is usually investigated. The logical question here is – what if the manager is not a leader at all? This is where the laissez-faire type of leader comes into play. It is a manager who does not take on any responsibility and is unable to motivate their followers in any way, so they do not intervene in the processes, only acting as an observer [46; 47].

However, despite the fact that this type of leadership is recognized as destructive for both the company and for subordinates [48; 49], it is still possible to find positive effects from a leader of this type under different circumstances. It all depends on the context and different behavioral patterns of such a manager [50].

Of course, we can distinguish between various types of leaders, such as transactional and transformational leaders. However, in this context the transactional leader will be the portrait of a successful manager. However, semantically, the words manager and leader have different meanings. Moreover, there is empirical research that proves that people can distinguish between a manager and a leader [51].

The concepts of a leader and a manager certainly overlap, but they also have notable differences [52]. Management functions can potentially provide leadership; leadership activities can contribute to managing. Nevertheless, some managers do not lead, and some leaders do not manage [53]. Algahtani [54] in his paper claimed that leaders can create new opportunities or visions, while managers should apply them within the company.

Moreover, thanks to empirical experiments, we can see that the qualities characteristic of a successful manager may not be characteristic of leadership [51; 54]. There-

fore, this question should be approached very carefully. Of course, this is especially relevant when examining behavioral biases. Researchers should be honest about the context in which they might investigate overconfidence, overoptimism, or inadequate risk-taking. Depending on the context, we can see that these biases tend to have a negative effect, although narcissism or overconfidence can have a positive effect on certain aspects of company performance [55], and overoptimism could also be positively correlated with firms' innovative activities [56]. However, this characteristic could have a negative effect in other cases, such as mergers or acquisitions [57; 58].

In other words, the context itself and the purpose of the study are important. For example, [59] precisely analyzed how a narcissist differs from a transformational leader. The study led the authors to conclude that these two concepts often overlap. Of course, in accordance with previous studies, a transformational leader should take responsibility for making a decision and should be confident in their actions. However, the key question becomes how to understand when this self-confidence is “healthy,” and when it becomes “unhealthy” for the organization. In other words, it is very difficult to distinguish between a successful transformational leader and a complete narcissist with unreasonable confidence and inadequate risk-taking.

According to the authors, the most important thing is to be able to clearly recognize a narcissist, for whom the company is only one tool used to achieve selfish personal goals, as well as identify a transformational leader who considers themselves a tool used by the company to achieve common and noble goals.

### Transformational leadership and company performance

Of course, transformational leadership is one of the most relevant topics in management-related literature. There is an entire list of articles that set out to study transformational leadership and business innovation, however, from the point of view of financial literature, the most relevant question is probably how transformational leadership is aligned with company performance.

Before starting to consider this problem, it is crucial to understand precisely what is meant by the term ‘company performance.’ It is a rather complex concept, but in the context of transformational leadership, the company's operational and financial performance are usually examined.

However, in the majority of cases researchers do not study the direct effect of transformational leadership on company activities. As a rule, intermediate influence is taken into consideration. For example, we can assume that transformational leadership has a positive effect on a company's innovative activity, on the efficiency of subordinates' work or on the knowledge sharing process. These variables, in turn, will have a significant effect on company performance.

First, it is worth starting with the company's innovative activity. One of the key points is the contribution of the transformational leader to the process of spreading knowl-

edge within the company. Also based on such characteristics as individual stimulation, the leader can motivate each employee to engage in intellectual and creative work [60; 61]. This leads to an increase in the company's innovation activity [62], which, in turn, has a positive effect on company performance [63–65]. Also, a study of a sample of 606 small and medium-sized enterprises from Thailand demonstrated that the positive effect of a company's innovative activities achieved thanks to transformational leadership also positively affects a company's financial activities [66]. In general, reliability of results is also greatly influenced by company size, i.e., in large corporations, the role of a single leader may be blurred. For this reason, the results for small and medium-sized enterprises confirm the effect of the transformational leader on company performance with greater reliability [67].

The next step is to consider the impact of a transformational leader on their subordinates. Thus, by motivating and inspiring their colleagues, the leader increases their efficiency, helps to achieve an understanding of corporate culture, and promotes compliance with high organizational standards [68]. In this manner, transformational leadership affects operational efficiency, thereby increasing the company's efficiency [69]. Moreover, transformational leadership increases employee competitiveness, which also has a positive effect on firm performance [70]. Transformational leadership also has a positive impact on the effectiveness of a team of top managers, but it is important to consider the fact that they must have a common leadership style, otherwise the effect may be the opposite [71]. Through the mechanism of sharing common values and a vision of the future, the transformational leader also aligns themselves with the improvement of the company's ethical culture, which also leads to enhanced performance [72].

## Conclusion

An analysis of the concept of leadership allows us to conclude that these theories can be considered beyond the framework of managerial or psychological research, i.e., in the context of corporate finance research. The connection between the transformational leader and company performance is already apparent. Moreover, one of the most important points is that this relationship is usually positive, while various behavioral characteristics may be viewed in a negative context. Scholars should aim to precisely identify various traits of a leader to understand the effect they have on different factors. As previously noted, it is extremely difficult to distinguish between an iconic transformational leader and a narcissist. Furthermore, the relationship between the leader and the team is also of paramount importance. In this regard, the concept of transformational leadership is highly relevant and in demand in the current literature. Perhaps, by separating out conditional patterns, it will be possible to develop managers' much-needed soft skills required for harmonious and sustainable development, in addition to hard skills. Of course, it is extremely important to distinguish between fields of study as well, for example, in medicine or educational institutions, the men-

tor's role may be much more important, while the leader's characteristics may also vary.

However, the very concept of a transformational leader cannot be ignored in the contemporary world. It becomes especially relevant in the new paradigm of sustainable development when a company needs qualitative changes. Here the visionary leader will be able to influence a company's long-term development, which in turn will be reflected in the value of the company. In this connection, research in the field of finance can also analyze leadership concepts, finding answers by considering the issue of company performance from a new viewpoint. Moreover, leadership research can have an impact on the human capital issue. Having closely studied the specific characteristics of a transformational leader that coincide with a positive result, it will be possible to develop new skills in the top management team. For now, we are considering the problem in the context of the qualities that are best avoided. But if we could see the qualities that can and should be developed in ourselves, would it give us a greater chance to answer the question of what the CEO of the future is like?

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