This chapter will explore the concept of self-efficacy (Bandura, 1997), and the link to leadership outcomes. A key focus will be the interpersonal relationship sources of these beliefs and a review of how levels of psychological similarity through shared meaning in work-based relationships may influence self-efficacy beliefs for leaders. The chapter provides consideration of empirical case studies that are concerned with leadership and self-efficacy implications of work relationships in the profit and not-for-profit sector. Overall, work relationships that involve higher levels of psychological similarity through shared meaning are more likely to support leaders' self-efficacy beliefs.

**Self-efficacy**

Self-efficacy (Bandura, 1997) or beliefs in one's capabilities to organise and execute the courses of action required to manage prospective situations, is seen as an important element in the determination of how capable an individual leader is in a given situation, how much effort they will deploy (Stajkovic, 2006), and how tenacious they are (Bandura and Locke, 2003). Individual leaders often fail to perform successfully, even though they know what they have to do and have the required skills; however leaders with a strong sense of efficacy exert greater effort to overcome difficulties (Choi *et al.*, 2003).

Self-efficacy beliefs are seen not as an overall single trait but as a set of self-beliefs that are closely linked to specific functional domains, for example, leadership in a particular area, such as aspects of sales, finance or human resources. Particularised efficacy beliefs are the most predictive because these are the beliefs that guide which leadership activities are undertaken and how well they are performed (Bandura, 1997).
The self-efficacy theory developed by Bandura gives centrality to the issue of control in people's lives and their capacity to exercise personal agency. Bandura argues that among the mechanisms of agency none is more central or pervasive than people's beliefs about self-efficacy. One key aspect of self-efficacy theory is that levels of leadership motivation and action are based more upon subjective efficacy beliefs than on objectively verifiable facts.

**The importance of self-efficacy in a leadership context**

The importance of self-efficacy beliefs for leaders in a range of different working leadership contexts is emphasised by a clear link between the level of individual leadership efficacy beliefs and performance outcomes (Yeo and Neal, 2006). Entrepreneurial leadership self-efficacy was shown to have a direct impact on performance outcomes in studies by Markman and colleagues (Markman and Baron, 2003; Markman et al., 2005) and Luthans and Ibrayeva (2006).

Self-efficacy theory helps provide greater understanding about why sub-optimal leadership performance occurs, as self-limiting expectancies are likely to hamper successful outcomes and directly inhibit learning from the activity. Sadri and Robertson (1993), writing about the link between self-efficacy and behavioural outcomes, indicate that studies consistently show findings in a positive direction, although the size of the effect may be moderated by the situational context.

Other evidence about the importance of the self-efficacy concept for leadership emerges from Lent and Hackett (1987) who show that individuals with higher self-efficacy receive higher performance ratings and achieve greater job tenure. The researchers argue that if performance skills are adequate then self-efficacy beliefs may determine whether individual leaders meet, exceed or undershoot theirs goals. Niles and Sowa (1992) argue that individuals with extensive histories of success in varied situations may be expected to have a more generalised sense of positive self-efficacy expectancies than individuals without such experiences.

The central theme in these studies is that a strong belief in self-efficacy helps an individual in a leadership role to successfully deal with the vicissitudes and challenges of managerial life. Links between the potential to lead and self-efficacy beliefs are made by Amit et al. (2006) who found significant differences between leaders and non-leaders in their self-efficacy beliefs. Self-efficacy beliefs influence leadership performance both directly and indirectly by influencing intentions.