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## **ANALYSIS OF DIFFERENCES IN LEADERSHIP STYLES BETWEEN NONPROFIT AND FOR-PROFIT ORGANIZATIONS**

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### **Abstract**

*The main goal of this research paper is to identify what differences, if any, exist in the leadership styles, behaviors, and competencies between nonprofit and for-profit organizational leaders that drive performance. The current study provides a deeper insight into the factors of effective leadership of nonprofit organizations. In the first half of the 1990s, non-profit organizations that appeared after the collapse of the eastern European socialist systems took over some of the former duties of the state (assistance for poor people, charity work, etc.). Some common features of nonprofit organizations which do not divide profits between stakeholders or directors are that they operate independent of the government and are institutionalized. They also govern themselves, are based on non-mandatory membership, and rely on self-employment. The nonprofit organization is characterized by volunteering, charity, citizens' initiatives, public benefit and public service. The findings of this study may assist current and future nonprofit sector leaders who are seeking to improve organizational effectiveness.*

**Keywords: effectiveness, Hungary, leadership, nonprofit organization, motivation**

### **Introduction**

At almost every moment of our lives, we are in contact with organizations. Our daily actions are greatly influenced by organizations around us, from school and nonprofit organizations to workplaces. In my study, I deal with the particular case of nonprofit organizations.

Organizations fundamentally operate under two premises: the first is to make profits, and the second is to provide social services without generating profits. The most important leadership theories are described below. I must note here that I will discuss the characteristics of nonprofit organization leadership at the end of this chapter.

Kotter (1990) makes a distinction between a manager and a leader by stating that modern management deals mainly with planning, budgeting, organizing, staffing, controlling and monitoring. A leader, on the other hand, deals with establishing a sense of direction by developing a vision of the future. A leader also has to communicate with the employees, support cooperation, and motivate and inspire the employees in order to create commitment to the goals.



Leadership style is based on the understanding of what motivates people. We can also say that it acts as a bridge in achieving organizational goals and in meeting individual goals, expectations, and needs (Northouse, 2007).

Organizational leadership has been defined as an interpersonal process for influencing individuals and groups to achieve organizational goals (Varney, 2008).

Drucker (1990) states briefly: "The only definition of a leader is someone who has followers."

Researchers are paying increasing attention to questions of leadership and organizational effectiveness. The widespread belief is that leadership can affect the performance of organizations (Rowe et al., 2005).

Leadership style can influence organizational strategic priorities and innovation or creativity, and organizational performance as well (Keller, 2006).

In theory, there are three basic leadership styles: autocratic, democratic and laissez-faire (Lewin, Lippit and White, 1939).

Based on distinctions between autocratic (task-oriented) and democratic (relationship-oriented) leadership, Likert (1961) developed the 'four systems' typology of leadership style: authoritative (autocratic) style, paternalistic style, consultative style and participative style.

Modern theories of leadership have tended to focus more on the interaction between leaders and followers, as well as the situational context. For example, Fiedler's (1967) contingency theory suggests the success of a leader depends on a given situation's favorability.

The two leadership theories that have dominated the New Leadership Theories are transactional and transformational. According to Yammarino et al. (1998), transactional leaders determine the goals and work that workers need to achieve, and suggest how to execute their tasks and provide feedback. Transactional leadership behavior refers to a "series of exchanges between the leader and the subordinate such that the leader provides rewards" (MacKenzie et al., 2001).

Transformational leadership was first proposed by Bass (1985). A transformational leader is a person who stimulates and inspires (transforms) followers to achieve extraordinary outcomes (Robbins and Coulter, 2007).

Nonprofit organizations are created by civil society and rely on volunteers who dedicate their efforts to mitigate social problems.

According to Green (2009), the five basic problems of the nonprofit sector include the lack of funding, government regulation, insecurity of funds, lack of volunteers, and the 'lack of good leadership'.

Management in the nonprofit sector differs from the management of profit-oriented organizations. Dobbs (2004) suggests that relationship building is very important in



nonprofit leadership (thinking in the 'social collective').

According to Taliento and Silverman (2005), we can identify five areas in which nonprofit strategic leaders adapt the practices of for-profit strategic leaders:

1. Smaller scope of authority,
2. Wider range of stakeholders,
3. The need for innovative metrics to monitor performance,
4. More attention to communications,
5. The challenge of building an effective organization with limited resources and training.

For a nonprofit organization's vision and mission to be efficient, they must involve the organization's culture, and must be evaluated internally and externally. Internal evaluation involves how the organization is interpreted by its members. External evaluation – which involves all the stakeholders - is valuable because it offers a different viewpoint (Dimitrios et al., 2013).

Drucker (1990) states that in no area are the differences greater between businesses and nonprofits institutions than in managing people and relationships.

Sohmen (2004) offers 'A Model of Nonprofit Project Leadership' that is based on transformational, visionary, and servant leadership.

## **Methods**

In scientific literature, the leadership of nonprofit organizations is mostly characterized by democratic leadership, while the leadership of for-profit organizations is characterized by an autocratic leadership style. This is reflected in the basic hypothesis of my research: that the leadership of for-profit organizations is different from the leadership of nonprofit organizations. I also supposed that leadership styles affect organizational efficiency as well.

For the present study, I determined that quantitative survey methodology was the most appropriate. I used the questionnaire method for data collection between 2016 and 2018. During the survey, I asked 107 Hungarian organizations, of which 50 were nonprofit organizations. A total of 500 questionnaires were sent out, from which 474 were fully answered and involved in the research. Leaders and employees received questionnaires equally.

When constructing the questionnaire, I formulated simple and clear questions. It was important that answering a datasheet require only a short time. Each survey took approximately 20 minutes to complete. The questionnaire contained both closed (mostly Likert-scaled) and open questions. The questionnaires were completed with the help of assistants. The first part of the questionnaire asks about the general data of the respondents (gender, age, educational level, etc.). The second part of the questionnaire



deals with questions such as leadership style, decision making, motivation system, and employee satisfaction.

I chose a personal questioning method because the response rate is much higher than in a self-filling questionnaire, and if the respondent could not properly interpret the question, assistants were able to help them, thus avoiding mistaken answers.

Collected data were processed using Microsoft Excel and SPSS 21.0 software.

To describe the relationship between variables, I used a special type of table called a cross-tabulation. Cross tabulation is a quantitative research method appropriate for analyzing the relationship between two or more variables.

## **Results**

In this part of the paper, I attempt to determine what differences exist between for-profit and nonprofit organizations, and how this affects these organizations' effectiveness.

There are approximately 62,000 nonprofit organizations in Hungary, most of them related to education (33%), leisure (23%), sports associations (19.5%), social care (16%) and culture (15%). According to data from the Hungarian Central Statistical Office (KSH), by 2016, the total number of people working in the nonprofit sector had decreased by 6.9% from 2015. In real numbers, this was over 142,000 people including 101,000 full-time and 41,000 part-time employees.

Table 1 contains the main characteristics of the respondents, and shows that 192 for-profit and 282 nonprofit questionnaires (a total of 474 questionnaires) were analyzed during my research. The evaluated questionnaires were 48% leadership questionnaires, while the remaining 52% was returned by employees.

62% of respondents were female and 38% were male. In terms of education level, the highest number of respondents (56%) had a high school education, while only 22% of respondents had university degree.



1. table: Descriptive information from respondents

	For-profit organization		Nonprofit organization		Total	
Evaluated questionnaire	Frequency	Percent	Frequency	Percent	Frequency	Percent
Leadership questionnaire	94	49	135	48	229	48
Employee questionnaire	98	51	147	52	245	52
Total	192	100	282	100	474	100
Age	Frequency	Percent	Frequency	Percent	Frequency	Percent
18-24	31	16	14	5	45	10
25-34	87	45	109	39	196	41
35-44	49	26	131	46	180	38
45+	25	13	28	10	53	11
Gender	Frequency	Percent	Frequency	Percent	Frequency	Percent
Male	84	44	97	35	181	38
Female	108	56	185	65	293	62
					474	
Education	Frequency	Percent	Frequency	Percent	Frequency	Percent
Basic	26	14	78	28	104	22
High school	120	62	145	51	265	56
University degree	46	24	59	21	105	22
Work experience	Frequency	Percent	Frequency	Percent	Frequency	Percent
less than 1 year	17	9	29	10	46	10
1-5 year	94	49	174	62	268	56
6-10 year	57	30	53	19	110	23
more than 10 year	24	12	26	9	50	11

Source: own research, 2018

When comparing the characteristics of for-profit and nonprofit organizations, we can see that there is a negative tendency for nonprofit organizations in the age group, as there are very few young people among the employees in these organizations. In my questionnaire survey, a total of 5 percent of respondents were under 25 years of age, while the percentage of middle-aged and older people (35+) was 56%.

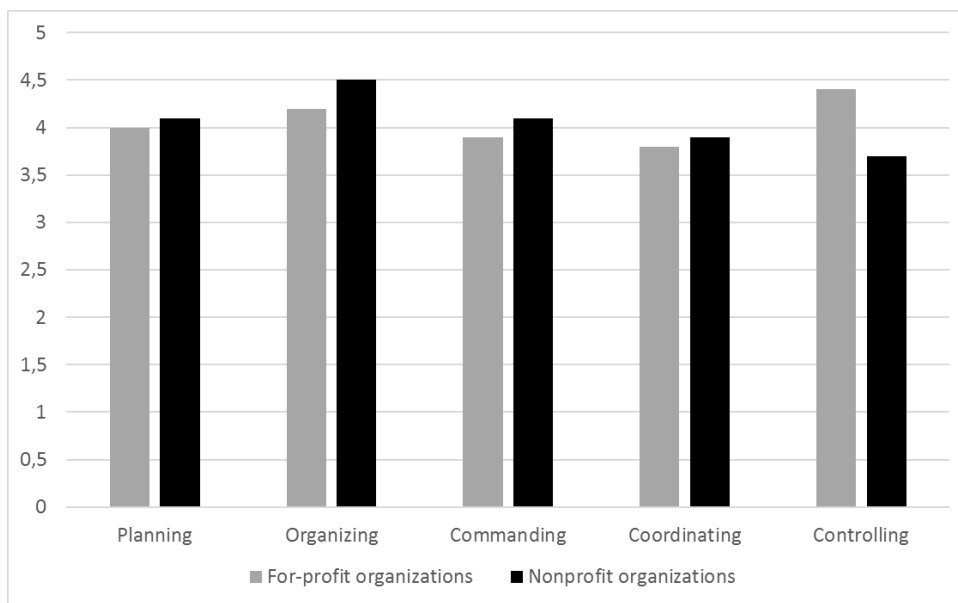
Another significant difference was in the case of gender: while in for-profit organizations the gender ratio was almost the same, nonprofit organizations had a majority of female workers (65%).

Henri Fayol (1949) identified functions of management in his book *Administration Industrielle et Generale*. Fayol defined five elements of management: planning, organizing, commanding, coordinating, and controlling. In Figure 1, based on Fayol, I investigated leaders' views on each management task. I used Likert's scale in posing the question using five variation fields: 1-not important, to 5-very important.

In Figure 1, we can see that there are differences in the ranking of management tasks. While the leaders of nonprofit organizations said that organizing (4.5) is the most important, the leaders of for-profit organizations consider controlling (4.4) the most important management task. The difference in views on leadership tasks between the

two types of organizations can be explained by the fact that while the most important goal of profit-oriented organizations is to achieve higher profits, the most important task for nonprofit organizations is to achieve social goals (usually without profit). It follows that control is important for profit-oriented organizations because of the high organizational performance they must achieve by strict controlling. Organizing plays a big role for nonprofit organizations in fulfilling everyday tasks, because they must often conduct a wide range of activities simultaneously.

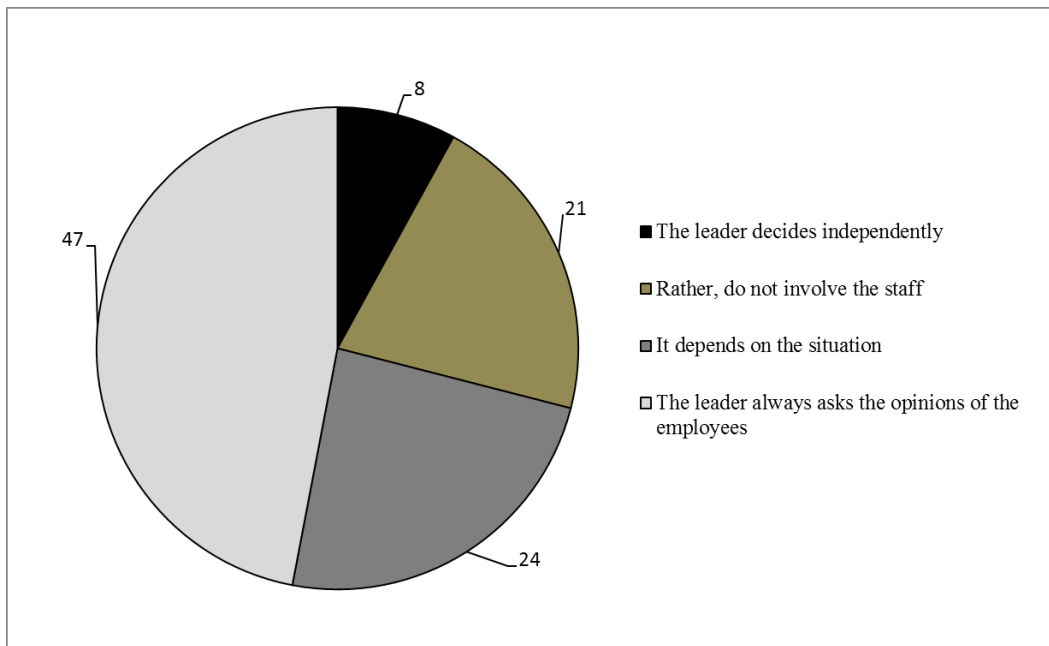
1. figure: Assessing the importance of management tasks among leaders, Likert-scale (1-not important, 5-very important)



*Source: own research, 2018.*

In considering leadership decision making, I came to the conclusion that leaders of nonprofit organizations are characterized mostly by a democratic leadership style: 47% of respondents said that the leader solicits their opinion before decision making, and another 24% of respondents said that in some situations the leader consults with them before decision making. Only 8% of respondents to the questionnaire said that leaders make decisions alone (Figure 2).

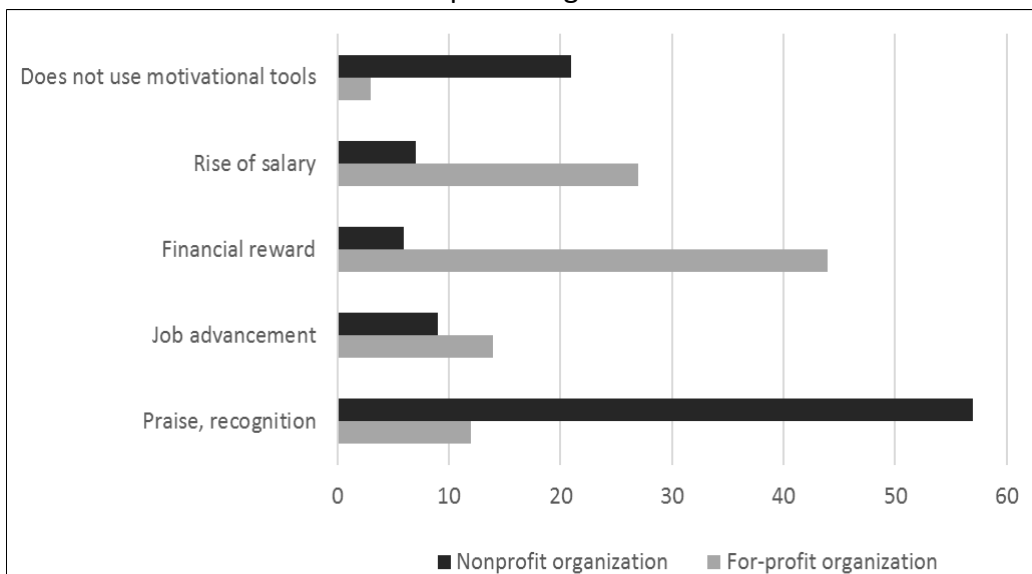
2. figure: Decision making process among the nonprofit leaders, percentage



Source: own research, 2018.

It is important for every organization to find suitable methods for motivating its employees. In my questionnaire survey, I examined differences between the for-profit and nonprofit organizations' employee motivational systems.

3. figure: Motivational tools used by evaluated for-profit and nonprofit organizations, percentage



Source: own research, 2018.

According to Figure 3, it can be concluded that the motivational tools used by both types of organization vary widely. While a nonprofit organization cannot rely on financial



motivation tools because of the lack of available financial resources, the foremost motivation tools for for-profit organizations are financial rewards (44%) and salary (27%). In the case of nonprofit organizations, recognition and praise (57%) for a job were extremely high as motivating tools. From this point of view, it can be concluded that the methods of motivation for both organizations were influenced by the type of organization.

It is interesting that some of the questioned leaders (3% of for-profit and 21% of nonprofit organization leaders) do not use motivational methods to encourage employee performance.

2. table: Main characteristics of leaders, percentage

	<b>For-profit organization</b>	<b>Nonprofit organization</b>
<b>Self-confidence</b>	19	13
<b>Trustworthiness</b>	11	16
<b>Courage</b>	16	9
<b>Inspiring</b>	12	11
<b>Friendly</b>	9	12
<b>Emotional stability</b>	12	13
<b>Warmth</b>	8	14
<b>Fair</b>	13	12

*Source: own research, 2018.*

In my survey, I was interested in how employees think about the personal characteristics of their leaders. While processing the questionnaires, I became aware of interesting differences in this regard. According to employees of for-profit organizations, the self-confidence of their leaders was high (19%), as was their courage (16%), while traits of friendliness (9%) and warmth (8%) did not characterize them. According to the nonprofit organization's employees, however, trustworthiness (16%) and warmth (14%) were the most important leader characteristics, followed by emotional stability (13%). The least important trait was courage (9%).

Based on the above and on the data obtained from processing the employee questionnaires, I tried to position the style of the leaders of both organizations. In summary, I came to the conclusion that the leaders of for-profit organizations belong to the autocratic leadership style, while the leaders of nonprofit organizations are mostly characterized by the democratic leadership style.





3. table: Correlations between Organization type and Leadership style

		Organization type	Leadership style
Organization type	Pearson Correlation	1	,404**
	Sig. (2-tailed)		,000
	N	474	474
Leadership style	Pearson Correlation	,404**	1
	Sig. (2-tailed)	,000	
	N	474	474

\*\* . Correlation is significant at the 0.01 level (2-tailed).

According to the data in Table 3, there is a moderately strong (.474) correlation between leadership style and organization type, and it follows that the results of the questionnaire analysis described above can be statistically proven.

I have conducted crosstabs analyses of the relationship between leadership style and organizational effectiveness, the results of which I briefly described below.

4. table: Correlations between Leadership style and Employee performance

		Leadership style	Employee performance
Leadership style	Pearson Correlation	1	,626**
	Sig. (2-tailed)		,000
	N	474	474
Employee performance	Pearson Correlation	,626**	1
	Sig. (2-tailed)	,000	
	N	474	474

\*\* . Correlation is significant at the 0.01 level (2-tailed).

I also examined the relationship between leadership style and employee performance, in which I found a strong correlation (.626) between the style of the organization's leaders and the performance of the organizational members (Table 4). A



lot of scientific literature demonstrates that one of the most important parts of organizational performance is the leader of the organization. This conclusion is also supported by my own survey, as those organizations (mostly for-profit organizations) where leaders were autocratic had higher organizational performance due to the strict controls and continuous performance measurements.

5. table: Correlations between Leadership style and Employee satisfaction

		Leadership style	Employee satisfaction
Leadership style	Pearson Correlation	1	,174**
	Sig. (2-tailed)		,000
	N	474	474
Employee satisfaction	Pearson Correlation	,174**	1
	Sig. (2-tailed)	,000	
	N	474	474

\*\* . Correlation is significant at the 0.01 level (2-tailed).

One of the most important questions of today is how satisfied our employees are. To answer this, I examined relationships between leadership style and employee satisfaction. According to Table 5, there is a positive correlation between the two factors, which means that leadership style has a slight impact (.174) on employee satisfaction. In my opinion, to increase employee satisfaction, the leaders of the examined organizations should pay more attention to creating a better workplace atmosphere, in which the creation of a favorable organizational culture can be of great help.

## Conclusions

Leadership style plays a decisive role in the life of every organization. For leaders to be able to drive people efficiently requires a person with high qualifications and countless positive qualities.

The purpose of my study was to evaluate the leadership styles used by for-profit and nonprofit organizations.

I produced two different questionnaires to accomplish the research goals of the study. One questionnaire was distributed among the for-profit organizations, while the other was distributed among the nonprofit organizations. I recognized during my research that the leaders of the nonprofit organizations did their best to try and find the



leadership style that best suited their own internal and external environment. In the leadership styles of the nonprofit organizations I examined, I found mostly democratic leadership styles. The democratic leaders involve their employees in their decisions, listen to their opinions, and even encourage their employees to confidently voice their views. It can be said of the leaders of the nonprofit organizations surveyed that they are trained, have an appropriate professional background and experience, and are characterized by positive attributes.

Praise and recognition play a decisive role among motivational tools for nonprofit organizations where it is well-known that a lack of capital is common.

Overall, it can be said that nonprofit organizations deal with problems that the socio-economic sector has not solved. Therefore, nonprofit organizations are important and necessary, so it is worthwhile to continue researching other elements of their leadership style in the future.

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