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Relationship between the leadership style and organizational performance in Hungary

Abstract

Effective leadership is one of the most essential tools for an organization to sustain its business in the face of problems caused by the global economic environment. Successful managers can influence their employees and motivate them for strengthening organizational performance. The effective leadership style as a unique way of integrating employees with the organization to achieve its vision or goals. The current study provides a deeper insight into the factors of effective leadership style of organizations. The research paper is seeking to examine the relationship of leadership style and organizational performance by quantitative analysis of 376 participants in Hungary. The results showed a correlation between the dimensions of leadership style and organizational performance. It was also found that leadership style predicted organizational performance, which meant a 29% variance in performance. The findings of this study may assist current and future managers who are seeking to improve organizational effectiveness.

Keywords: Hungary; Leadership Style; Manager; Organizational Performance; SME

JEL Classification: D23; J53; M12; O15; J24

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1. Introduction

At almost every moment of our lives, we are in contact with any number of organizations. Our daily actions are greatly influenced by these organizations around us, from school to work-places (Li et al., 2021). Leadership is becoming increasingly popular all over the world. The organizations realize that the effectiveness and success of their activities depend on the strength of their leadership potential.

The organizations fundamentally operate under two premises: the first is to make profits, and the second is to provide social services without generating profits (Grynko & Gviniashvili, 2017).

According to Bhargavi & Yaseen (2016) the terms «leadership» as well as «management» are used interchangeably, although there are major differences that separate them; leaders inspire their followers, while managers motivate their staff. Bennis (1994) says the difference between the two concepts is that: leaders are people who do the right thing while managers are people who do things right. Continuing to show the differences, according to Kotter (1990) leaders produce the potential for dramatic change, chaos, and even failure, while managers ensure standards, consistency, predictability, and order (Oláh et al., 2018).

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 (Klein et al., 2013).

According to Avolio et al. (1999) leaders, as the key decision makers, determine the acquisition (Oláh et al., 2017), development, and deployment of organizational resources, the conversion of these resources into valuable products and services, and the delivery of value to organizational stakeholders.

Leadership is when the leader guides their employees towards the organizational goals, all the while trying to communicate and motivate their employees in order to make sure their employees are in the right position to use their talents and commit to their jobs (Denning, 2018).

According to Northouse (2007), leadership is a process where a person encourages a group to reach a shared aim. Leadership can be described as the ability of an individual to influence, motivate, and enable others to contribute toward the effectiveness and success of an organization of which they are members (Bass, 1985).

The objective of this study was to examine the impact of leadership style on organizational performance.

2. Brief Literature Review

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 (Dobbs, 2004). Mullins (2000) defines leadership style as the way a manager chooses to act toward subordinates and the way a manager performs the leadership function.

The very first study of leadership styles was performed in 1939 by Lewin, Lippitt, & White. They singled out three main types of leaders: Autocratic, Democratic, and Laissez-fair (Delegating).

Autocratic leaders retain for themselves the decision-making rights. This leadership style is instructions-centric and a way of controlling the followers. Autocratic leadership means authoritarian control over a group. An autocratic approach is appropriate in some situations, for example in emergency situations (Armstrong, 2012). It is valuable when the business faces a crisis or when an urgent problem arises that requires an immediate response (Lepeyko & Batkhuu, 2017).

Democratic leadership, also known as participative leadership. According to Tannenbaum & Schmidt (1958), democratic leadership is where decision-making is decentralized and shared by subordinates. According to Puni et al. (2014), decision-making in the democratic leadership style is not centralized and high performance is recognized and rewarded. The democratic leader encourages people to share their ideas and then uses the available information to make a decision (Goleman et al., 2013). Researchers (Dixon & Hart, 2010; Kotter, 2009; Otieno et al., 2015; Barabás et al., 2017) have found that the democratic leadership style is usually one of the most effective styles and leads to higher organizational performance. According to Polston-Murdoch (2013) leaders who adopt a democratic style have better organizational performance than those who apply other styles. According to Dess & Robinson (2010), a democratic leadership style results in an increase in employee performance. However, Adeyemi (2010) and Németh & Dóry (2019) found that work performance was found to be better in organizations that use an autocratic leadership style of manager than in those where managers use democratic or laissez-faire leadership styles. Democratic leadership sounds good in theory, but it often gets bogged down in a slow decision-making process and always requires a lot of time and effort (Nwokocha & Iheriohanma, 2015). De Hoogh et al. (2015) argues that when team power struggles were low, autocratic leadership was positively related to team performance, but when team power struggles were high, autocratic leadership was negatively related to team performance.

Laissez-fair leadership is characterized by complete freedom for followers to make decisions, with leaders providing the tools and resources needed, and the group members are expected to solve problems on their own. According to Deluga (1992), Laissez-faire style is associated with dissatisfaction, low productivity, and inefficiency.

Recently, several researchers have tried to further develop the model of Lewin et al. (1939). Stoner & Freeman (1995) complement the previous model with an additional leadership style, namely the Bureaucratic leadership style. According to Delbecq (1963) bureaucratic leadership is where the manager manages on a «by the book» basis. Everything should be done according to procedure or policy.

According to Karácsony (2019), when some organizations seek efficient ways to enable them to perform they focus on the effects of leadership. This is because team leaders are believed to play a pivotal role in shaping collective norms, helping teams cope with their environments, and coordinating action. Weiss (2004) states that effective leadership helps groups of workers define their goals and find ways of achieving them.

According to Drucker (1993), effective leadership is sometimes more than power, in that it entails some degree of voluntary compliance by the followers.

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

Leadership is a kind of power where one person has the ability to influence or change the values, beliefs, behavior, and attitudes of another person. In the last decade, the impact of leadership on organizational performance has become a popular research topic among academics and practitioners (Rowe et al., 2005, Vasa & Mendelényi, 2010). The widespread belief is that leadership can affect the performance of organizations (Ganta & Manukonda, 2014). According to Daft (2000), organizational performance is the ability of an organization to achieve its goals through the effective use of resources. According to Ricardo and Wade (2001) organizational performance refers to an organization's ability to achieve its goals.

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

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 & Coulter, 2007). The image of the transformational leader who builds and promotes a unique and appealing vision, and inspires employees to believe in his/her leadership, seems an especially appropriate picture of the entrepreneur.

Summarizing the above-described theories, leadership is one of the key driving forces for improving organizational performance. The aim of the study was to identify the leadership styles used by managers and to examine their impact on the performance of organizations.

The following hypothesis was formulated in study: there is a significant relationship between leadership style and organizational performance in small and medium-sized enterprises in Hungary.

3. Purpose

The purpose of the paper is to examine the relationship between the manager's leadership style and organizational performance. The study is focused on the general framework, the main pillars of the leadership style, which has an impact on organizational performance of small- and medium-sized enterprises. The approach to the topic and the research method are novels, which may provide a basis for other similar research.

4. Materials and Methods

In the present study, quantitative survey methodology was used for data collection between 2020 and 2021. A structured questionnaire was used in collecting relevant data from the operational and middle-level managers. A total of 693 questionnaires were sent out, from which 376 were involved in this research.

Participants were advised that the completion of the questionnaire should take no longer than 30 minutes. Simple random sampling was used among the managers of Hungarian small and medium-sized enterprises. Before research, pilot testing was conducted to help identify and change confusing, awkward, or offensive questions and techniques, thereby enhancing the validity and reliability of the research instruments.

All participants were advised that their participation was voluntary. Respondents were also assured that their own identity, together with the name of the organizations they work for, will remain confidential. It was explained to participants that the questionnaire is completely anonymous.

The questionnaire contained Likert-scaled questions. The first part of the questionnaire asks about the general data of the respondents (gender, age, educational level, position, etc.). The second part of the questionnaire deals with questions such as leadership style, decision making process, etc. The study examines the managers interviewed, based on the Lewin, Lippit and White

leadership theory. The Leadership Styles Questionnaire used in the research was adapted from Peter G. Northouse's book: Introduction to Leadership: Concepts and Practice.

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

Data Collection Tools

The leadership styles scale was developed by Northouse to determine the types of leadership styles. The scale consists of 18 items and three sub-dimensions: «democratic style» ($n = 8$ items), «autocratic style» ($n = 8$ items) and «Laissez-fair» ($n = 8$ items). The scale rated in five-point Likert form. It was scored as «strongly agree = 5», «agree = 4», «neutral = 3», «disagree = 2» and «strongly disagree = 1». The Cronbach's alpha values of the scale were calculated as 0.84 in the democratic style, 0.81 in the autocratic style, and 0.75 in the style Laissez-fair.

On the organizational performance scale, respondents rated the level of organizational performance compared to their competitors. The organization's performance was measured on a 5-point Likert scale, that «we are in a much worse position than our competitors = 1» and «we are in a much better position than our competitors = 5». The Cronbach's alpha values of the scale were calculated as 0.82.

5. Results and Discussion

Table 1 contains the main characteristics of the respondents and shows that 376 managers were questioned during the research.

89% of respondents were male and 11% were female. In terms of education level, the highest number of respondents (84%) had a university degree, while only 13% of respondents had secondary school education.

In the survey, a total of 14% of respondents were under 25 years of age, while the percentage of middle-aged and older people (35+) was 69%. In the case of position, the majority of examined respondents were in an operational manager position (57%).

Based on the responses received, 53% of the managers interviewed were Autocratic, 41% Democratic, and 6% Laissez-Fair style leaders (Figure 1).

The results of the decision-making question also support the fact that a significant proportion of the interviewed managers were in an autocratic and democratic style. 45% of respondents to the questionnaire said that they make decisions alone, and another 37% of respondents said that they consult with subordinates before decision-making. Only 6% of respondents said that they let their subordinates decide alone (Figure 2).

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 3, based on Fayol, is shown the examined managers' views on each management task. There are differences in the ranking of management tasks. The leaders

Table 1:
Descriptive information from respondents

Position	Frequency	Percent
Operational manager	213	57
Middle-level manager	163	43
Age		
18-24	54	14
25-34	65	17
35-44	115	31
45+	142	38
Gender		
Female	42	11
Male	334	89
Education		
Elementary school	9	3
Secondary school	46	13
University degree	312	84
Work experience		
less than 1 year	14	3
1-5 year	69	18
6-10 year	159	43
more than 10 year	134	36

Source: Own research

of organizations consider controlling (4.4) the most important management task. The most important goal of profit-oriented organizations is to achieve higher profits; it follows that control is important for profit-oriented organizations because of the high organizational performance they must achieve by strict controlling. Organizing (4.2) plays a big role for organizations in fulfilling everyday tasks, because they must often conduct a wide range of activities simultaneously.

The result in Table 2 shows that leadership style dimensions have a positive relationship with organizational performance. The autocratic style of leadership and democratic style of leadership have significant positive effects on organizational performance with ($r = 0.455$ and $r = 0.412$; $P < .01$) which indicate that the autocratic style and the democratic style induce employees in Hungarian small- and medium sized enterprises to perform as expected.

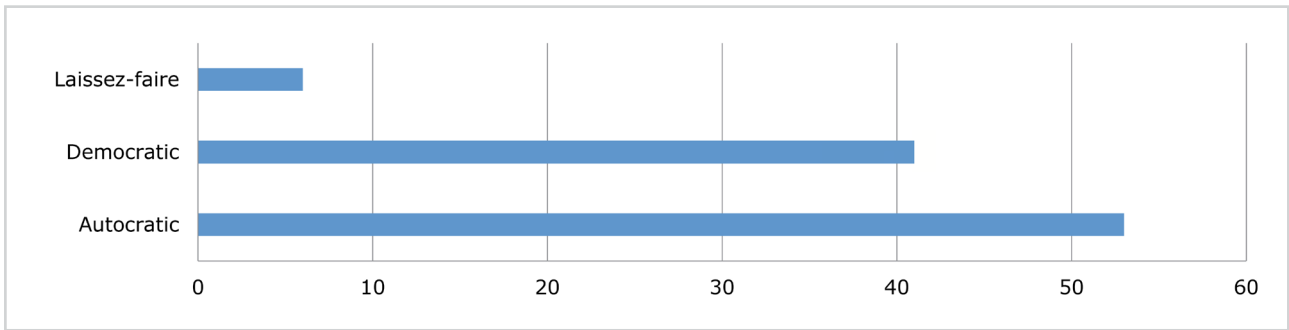


Figure 1:
The leadership style of the interviewed managers
Source: Own research

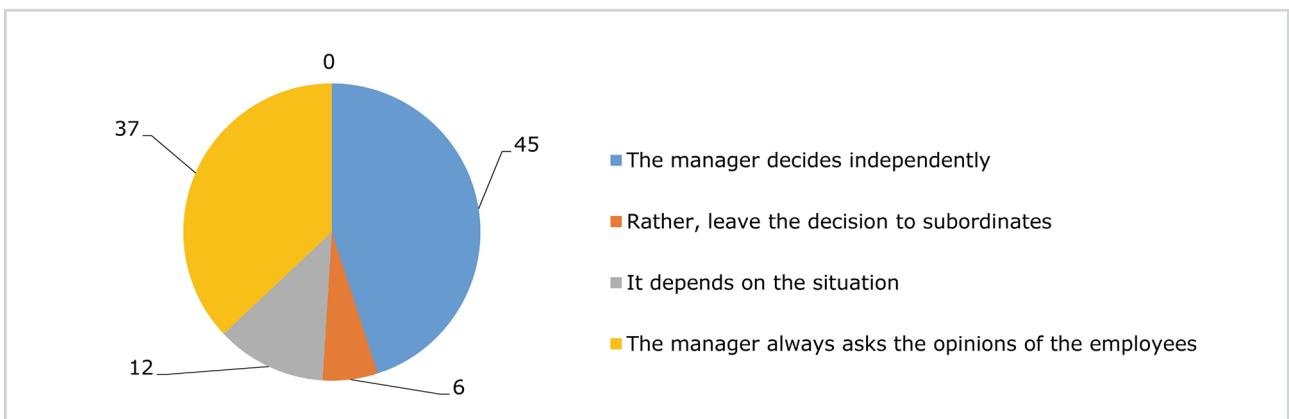


Figure 2:
Decision making process among the leaders, percentage
Source: Own research

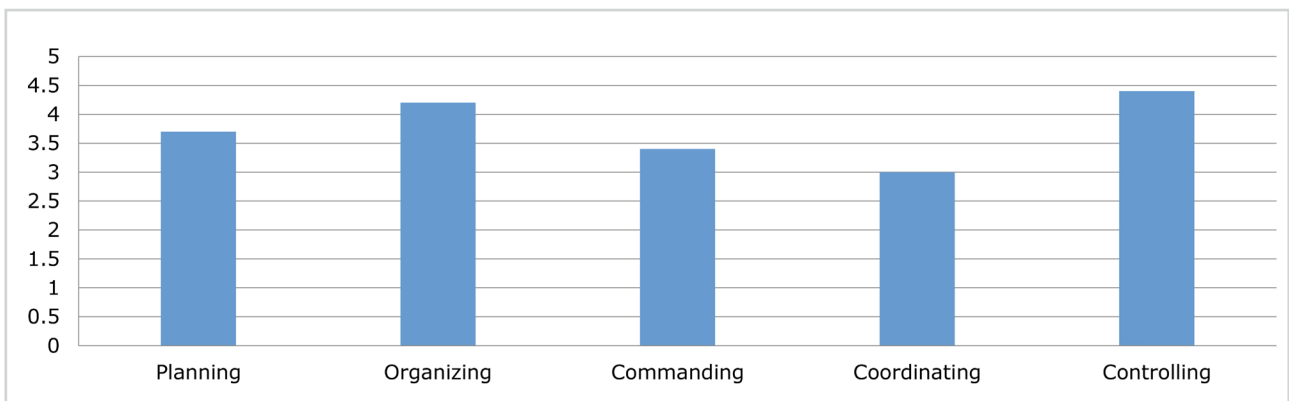


Figure 3:
Assessing the importance of management tasks among leaders, in Likert-scale (1 - not important, 5 - very important)
Source: Own research

The result shows that leadership style dimensions were joint predictors of organizational performance ($R = .546$; $R^2 = 0.298$; $P < .05$) (Table 3).

The predictor variables (leadership styles) jointly explained 29% of the variance of organizational performance, while the remaining 71% could be due to the effect of extraneous variables.

Autocratic style of leadership ($\beta = 0.368$; $t = 8.060$; $P < .05$), democratic style of leadership ($\beta = 0.257$; $t = 5.560$; $P < .05$) and Laissez-fair style of leadership ($\beta = 0.169$; $t = 3.224$; $P < .05$) were significantly independent predictors of organizational performance (Table 4). This implies that these leadership styles have a significant effect on subordinates and organizational performance (Table 5).

A several scientific (Dimitrios et al., 2013; Delbecq, 1963; Muldoon et al., 2018) literature demonstrates that one of the most important parts of organizational performance is the manager. According to Wang et al. (2010) different leadership styles may have a positive or negative correlation with the organizational performance. This conclusion is also supported by this survey, as those organizations where managers were autocratic had higher organizational performance due to the strict controls and continuous performance measurements.

Table 2:
Pearson correlation, showing the relations of leadership style dimensions and organizational performance

Variables	1	2	3	4
Organizational performance	1			
Autocratic	.455**	1		
Democratic	.412**	.359**	1	
Laissez-fair	.110*	-.151**	0.091	1

Notes: * - correlation is significant at the 0.05 level (2-tailed);
** - correlation is significant at the 0.01 level (2-tailed).

Source: Own research

Table 3:
Model summary of regression analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.546 ^a	.298	.292	.72287	.298	52.619	3	372	.000	1.893

Notes: a - predictors: (Constant), democratic, Laissez-fair, autocratic;
b - dependent variable: organizational performance.

Source: Own research

Table 4:
ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.	
1	Regression	82.486	3	27.495	52.619	.000 ^b
	Residual	194.384	372	.523		
	Total	276.870	375			

Notes: a - dependent variable: organizational performance;
b - predictors: (Constant), democratic, Laissez-fair, autocratic.

Source: Own research

Table 5:
Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.527	.156		3.374	.001
	Laissez-fair	.169	.053	.143	3.224	.001
	autocratic	.368	.046	.383	8.060	.000
	Democratic	.257	.046	.262	5.560	.000

Notes: a - dependent variable: organizational performance.

Source: Own research

6. Conclusions

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

The goal of this research work was to examine the effect of leadership style on organizational performance. From the result, it was discovered that there is a strong impact of leadership style of managers on organizational performance. The coefficient of determinant of $R = 0.298$ indicates that 29% variation in organizational performance is accounted for by good leadership style.

The results of this study established that there was a significant positive relationship between leadership and organizational performance. This trend is supported by O'Reilly et al. (2010) and Peterson et al. (2003) where manager's effectiveness was significant, there organizational performance was prominent too.

An organization has to select a suitable leadership style to be successful in the competitive environment. It is concluded that autocratic and democratic leadership styles are the best for the managers of Hungarian small- and medium sized enterprises.

Finding the approaches and methods to develop the performance of the employees is an important duty for today's managers. Overall, it can be said that small- and medium-sized organizations are important and necessary in the Hungarian economy, so it is worthwhile to continue researching other elements of their leadership style in the future.

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