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Impact of Leadership Style to the Business Performance: Balanced Scorecard Approach

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Abstract

Leadership in modern business plays a crucial role in the business success of companies. Previous studies were focused mainly on measurement of financial performance management. The aim of this paper is to explore the extent to which leadership styles affect the success of the company using the system of balanced scorecard approach. A survey was conducted on a sample of Croatian companies, and Leadership Style Questionnaire has been used. The results showed that autocratic leadership has mostly negative impact on process efficiency and knowledge and employees management. Democratic leadership has mostly positive impact on all aspects of efficiency measured by a system of balanced scorecard approach. Laissez-faire leadership has significantly less impact on the efficiency than the other leadership styles.

Keywords: leadership, balance scorecard, autocratic, democratic, laissez-faire, knowledge management, finance, markets, processes

JEL classification: M1

Introduction

Leadership can be defined as a process of influence on people. Given the different characteristics and traits of individuals, it is possible to distinguish between leadership that is based on the characteristics and behaviour of leaders, contingency approach to leadership and some new models of management (Spears, 2010; Houghton, Yoho, 2005).

Leadership based on the characteristics of the leader implies that leaders are born leaders, and is characterized by: self-respect and respect for others, efficiently and effectively mastering new tasks, will and willingness to learn new, the ability to communicate (Woods, 2004).

Leadership based on the behaviour of leaders includes several types of leadership: leadership based on the use of authority, Likert systems management, tasks oriented leadership, continuum of leadership. The following paper will describe leadership that is based on the use of authority pertaining to the autocratic and democratic leader and the leader with the free hand (Middleton, 2007). Autocratic leader is a person who manages others by system of rewards and punishments, and requires submission of the associates. Democratic leader is focused on co-workers and encourage their involvement in decision-making processes. The leader of the free hand (laissez-faire) fully encourages associates to work independently (Graham, 1991).

Apart from successful leaders, or persons who will encourage employees to work and guide them through tasks, companies need to measure the success in achieving strategic goals where, as one of the best methods, demonstrated the

system of balanced scorecard approach (Norreklit, 2000). This model was developed by professors at Harvard University in 1990-ies (Kaplan, Norton, 1996) with the aim of defining ways to measure the achieved results and their deviation from the plan. The system of balanced scorecard approach is based on four perspectives of the company: customers, internal processes, finance, and learning and growth of employees (Hoque, James, 2000). The financial perspective is a fundamental factor in the success of every company. Also, the goal of every company is to have satisfied customers, and strive to retain existing clients and attract new clients. Internal processes have been related to innovation and improving business processes. Satisfied, capable and skilled employees are the key to the success of each company, which means that it is necessary to create a working environment that will motivate employees to work, and who will be rewarded for their successes.

The objectives of this paper are as follows: (i) To investigate the effect of different leadership styles on the financial performance of the company; (ii) To investigate the effect of different leadership styles on the market performance of companies; (iii) To investigate the effect of different leadership styles to process efficiency of the companies; (iv) To explore the impact of different leadership styles in the efficiency of companies in knowledge management.

This paper consists of the following parts: after an introduction follows the methodology of research, then analysis of the results of the paper and finally displayed the conclusions.

Methodology

Unit of the research in this paper is a company registered in the Republic of Croatia, and a population is a set of all such companies. The framework of elections is the database of the Croatian Chamber of Commerce, of which was randomly selected sample of companies. Examinee is a president or a board member of the company, in which case the companies were previously contacted by telephone in order to establish contact and explain the purpose, and the confidentiality of research results, as well as their exclusive use for scientific purposes. The survey was conducted on a stratified sample of 60 companies.

Styles of leadership in the organizations in the sample were measured using the questionnaire attached, in which the use of certain claims measured autocratic, democratic and laissez-faire style of leadership. The questionnaire (Leadership Styles Questionnaire) is taken from the book Introduction to Leadership by author Northouse (2012). Examinees expressed on a scale of 1 to 5 how much they agree with a particular statement.

Claims that measure the presence of an autocratic style of leadership are: L 1. Employees need to be supervised closely, or they are not likely to do their work; L 4. It is fair to say that most employees in the general population are lazy; L 7. As a rule, employees must be given rewards or punishments in order to motivate them to achieve organizational objectives; L 10. Most employees feel insecure about their work and need direction; L 13. The leader is the chief judge of the achievements of the members of the group; L 16. Effective leaders give orders and clarify procedures..

Claims that measure the presence of a democratic style of leadership are: L 2. Employees want to be a part of the decision-making process; L 5. Providing guidance without pressure is the key to being a good leader; L 8. Most workers want frequent and supportive communication with their leaders; L 11. Leaders need to help subordinates accept responsibility for completing their work; L 14. It is the

leader's job to help subordinates find their "passion."; L 17. People are basically competent and if given a task will do a good job.

Claims that measure the presence of laissez-faire style of leadership are: L 3. In complex situations, leaders should let subordinates work problems out on their own; L 6. Leadership requires staying out of the way of subordinates as they do their work; L 9. As a rule, leaders should allow subordinates to appraise their own work; L 12. Leaders should give subordinates complete freedom to solve problems on their own.; L 15. In most situations, workers prefer little input from the leader; L 18. In general, it is best to leave subordinates alone.

Measuring the success of organizations in the sample

Measuring the success of organizations in the sample was conducted using a questionnaire which measures the performance of the company relative to its competitors in the main activity, with regard to financial, process, market dimension of success and the success of knowledge management. Respondents expressed on a scale from 1 to 5 the extent to which they agree with the statement that their company is better than the competition in the industry.

The dimensions of financial performance are: F1. Profitability, F2. Realized gains and F3. Return on investment. Dimensions of market success are: T1. Customer satisfaction, T2. Market share and T3. Quality of products/services. Dimensions of process performance are: P1. The efficiency of internal processes, P2. Innovation of products/services, P3. Innovating internal processes. Success dimensions of knowledge management are: Z1. Staff competency, Z2. The application of new technologies, Z3. Organizational climate.

Statistical analysis

Hypothesis testing work was carried out by using regression analysis. Using individual particles (items), it was formed the average value of each dimension of performance variables that were used as dependent variables in the model. The dependent variables were used in measuring particles of different leadership styles. To form the model was used to repeated step-wise regression analysis. In this way we formed 4 regression models

Results

Table 1 shows the regression models with dependent variables:the financial performance, market success, production performance and knowledge and employees. As the independent variables all particles measuring leadership styles, referring to the autocratic, democratic and laissez-faire style were used.

Table 1

The impact of leadership styles on the performance of companies measured by the balanced scorecard approach

	Financial success	Market success	Procedural success	Knowledge and employees
Constant	2,403***		5,116***	5,391
Autocratic stile				
L 1. Employees need to be supervised closely, or they are not likely to do their work.		0,207***		
L 4. It is fair to say that most employees in the general population are lazy.		-0,195***	-0,283***	-0,187***
L 10. Most employees feel insecure about their work and need direction.	-0,271***	-0,236***		-0,213***
L 13. The leader is the chief judge of the achievements of the members of the group.		0,236***		
Democratic stile				
L 5. Providing guidance without pressure is the key to being a good leader.			-0,156*	
L 9. As a rule, leaders should allow subordinates to appraise their own work.		0,171**		
L 11. Leaders need to help subordinates accept responsibility for completing their work.				-0,171**
L 12. Leaders should give subordinates complete freedom to solve problems on their own.		-0,125*		
L 14. It is the leader's job to help subordinates find their "passion".	0,322***		0,236**	
L 17. People are generally competent, if they are given tasks, they will do their job			-0,293***	
Laissez-faire stile				
L 9. As a rule, leaders should allow subordinates to appraise their own work.			0,202**	
L 12. Leaders should give subordinates complete freedom to solve problems on their own.			-0,131*	-0,129**
L 15. In most situations, workers prefer little input from the leader.	0,264***			
L 18. In general, it is best to leave subordinates alone.				0,161**
Indicatorsof representativeness of the models				
R2	0,254	0,370	0,287	0,381
Custom R2	0,214	0,299	0,207	0,324

Source: Research of the author, May, 2014

Remark: * 10%, ** 5%, *** 1% probability

The impact of leadership styles on the market success

In the model are statistically significant four independent variables that reflect the autocratic style of L1. Employees need to be supervised closely, Or they are not likely to do their work. (Statistically significant at 1% probability), L4. It is fair to say that most employees and the general population are lazy. (Statistically significant at 5% probability) L10. Most employees feel insecure about their work and need direction. (Statistically significant at 1% probability) and L13. The leader is the chief judge of the achievements of the members of the group. (Statistically significant at 5% probability). The variables L1 and L13 have a positive impact on the dependent variable market success in all businesses, and variable L10 negative impact. In the model are statistically significant two independent variables that reflect the laissez-faire style of L9. As a rule, leaders should allow subordinates to appraise their own work. (Statistically significant at 5% probability) and L12. Leaders should give subordinates complete freedom to solve problems on their own. (Statistically significant at 10% probability). Variable L9 has a positive impact on the dependent variable market success in all businesses, and variable L12 negative impact. Formed a model whose determination coefficient 0.370, which indicates that the selected model interpreted 37.0% deviation of the dependent variable.

The impact of leadership styles on procedural success

The model was statistically significant only one independent variable that reflects the autocratic style L4. It is fair to say that most employees and the general population are lazy. (Statistically significant at 1% probability), which has a negative impact. In the model are statistically significant three independent variables that reflect the democratic style of L5. Providing guidance without pressure is the key to being a good leader. (Statistically significant at 10% probability), L14. It is the leader's job to help subordinates find their "passion". (Statistically significant at 5% probability) and L17. People are generally competent and if they are given tasks, they will do the job (statistically significant at 1% probability). Variables L5 and L17 have a negative impact on the dependent variable Procedural success in all businesses, and variable L14 positive impact. In the model are statistically significant two independent variables that reflect the laissez-faire style of L9. As a rule, leaders should allow subordinates to appraise their own work. (Statistically significant at 5% probability) and L12. Leaders should give subordinates complete freedom to solve problems on their own. (Statistically significant at 10% probability). Variable L12 has a negative impact on the dependent variable Procedural success in all businesses, and variable L9 positive impact. Formed a model whose determination coefficient 0.287, which indicates that the selected model interpreted 28.7% deviation of the dependent variable.

The impact of leadership styles on knowledge and employees

In the model are statistically significant two independent variables that reflect the autocratic style L4. It is fair to say that most employees and the general population are lazy. (Statistically significant at 1% probability) and L10. Most employees feel insecure about their work and need direction. (Statistically significant at 1% probability). Variables L4 and L10 have a negative impact on the dependent variable Knowledge and employees in all companies. The model is a significant one independent variable that reflects the democratic style L11. Leaders need to help subordinates accept responsibility for completing their work. (statistically significant at 5% probability), which has a negative impact. In the model are statistically

significant two independent variables that reflect the laissez-faire style L12. Leaders should give subordinates complete freedom to solve problems on their own. (Statistically significant at 5% probability) and L18. In general, it is best left to subordinates to do their job (statistically significant at 5% probability). Variable L12 has a negative impact on the dependent variable Knowledge and employees in all companies, and variable L18 positive impact. Formed a model whose determination coefficient 0.381, which indicates that the selected model interpreted 38.1% deviation of the dependent variable.

Conclusion

In the applicative sense it is expected contribution stems from the implementation of empirical research on a sample of Croatian companies. The research results may have wide application in planning the implementation of leadership styles in a wide range of business enterprises. First, companies should accept that different styles of leadership have a strong impact on the various dimensions of business performance (financial, market, process and success of knowledge management). Secondly, the company would, consequently, have to accept that there are differences between the leadership style applied to the management of the company, and will, in some cases, be more appropriate autocratic, and in some other democratic or laissez-faire style of leadership.

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About the author

Ivan Miloloža graduated at the Faculty of Economics in Zagreb. He lived and worked abroad in the period 1983rd to 1986th (Argentina and Netherland). Since 1986 he has been employed in the company Munja, the only Croatian battery producer, where he held almost all management functions, and is currently Chairman of the Board (since 1999). He held many social functions in various government bodies, associations and banks, and he was participant and a guest lecturer at numerous national and international Conferences. He had Master Degree from the Faculty of Economics in Zagreb in 2012 and received his doctorate in 2015 at the Faculty of Economics in Osijek. Ivan Miloloža can be contacted at ivan.miloloza@munja.hr.