

# Leading for Impact: Learning, Innovation, and Effectiveness in Greek Nonprofit Organizations



**Christina Giannopoulou**, Doctoral Fellows Program 2011

Dr. Christina Giannopoulou holds a PhD in Business Administration with an emphasis in Nonprofit Management and Leadership from the Athens University of Economics and Business (AUEB) in Athens, Greece. Her research is focused on the impact of leadership on organizational-level outcomes in the nonprofit context as well as on organizational resilience and the effects of multiple crises (the Greek economic crisis as well as the migration crisis) on nonprofit organizations.

## Research Question

***What is the relationship of leadership style to organizational learning, innovation, and effectiveness?***

### Brief Abstract

Focusing specifically on the Greek nonprofit sector, this paper seeks to understand the effectiveness of different leadership styles and to determine if organizational learning and innovation can lead to effectiveness. This study identifies four leadership styles— transformational, transactional, passive/avoidant, and strategic. The author compiled a list of nonprofits and administered surveys to the managers of 100 leading organizations. According to the results, the adoption of strategic and transactional leadership behaviors by the nonprofit managers is the most effective approach. These findings suggest that leadership matters in the nonprofit sector but it also depends on the developmental phase of the sector and the organizations.

### Key Findings

- ▶ Transactional leadership, aimed at monitoring and controlling employees, is strongly related to organizational effectiveness.
- ▶ Strategic leaders, who focus on developing and implementing objectives and policies, lead to greater learning and innovation in the organization.
- ▶ Transformational leadership, associated with motivating, inspiring, and broadening the interests of staff, does not appear to have significant relationships with any of the organizational variables.
- ▶ Organizational learning is positively related to organizational effectiveness and, thus, may serve as a link between a leadership style and the efficacy of an organization.

### Opportunities for Action

- ▶ In countries where the nonprofit sector is fairly underdeveloped, it may be more beneficial for nonprofit leaders to adopt more basic leadership styles, such as strategic and/or transactional leadership. These styles can be easily combined.
- ▶ Nonprofit organizations should provide frequent opportunities for ongoing training and collaboration for staff as this will improve the organization's effectiveness more than developing new services and programs.
- ▶ Nonprofit leaders should avoid passive/avoidant behaviors as this leadership style leads to a decrease in organizational innovation and learning.



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## **Leading for Impact: Learning, Innovation, and Effectiveness in Greek Nonprofit Organizations**

### **Abstract**

This is an exploratory study of leadership behaviors, organizational learning, innovation, and effectiveness in a sample of Greek nonprofit organizations operating at national and / or international levels. The examination of the relationships among four distinct leadership behaviors (transformational, strategic, transactional, passive / avoidant) and the certain organizational level outcome variables contributes to a better understanding of the processes that influence organizational effectiveness in the Greek nonprofit sector, by indicating that the adoption of strategic and transactional leadership behaviors by the nonprofit managers is the most effective approach. Furthermore, this study provides the validation that organizational learning constitutes a pathway to nonprofit organizational effectiveness, but this is not the case for organizational innovation. These findings suggest that leadership matters in the nonprofit sector but it also depends on the developmental phase of the sector and the organizations. Therefore, the relatively underdeveloped nature of the Greek nonprofit sector makes more effective the adoption of more basic leadership styles by the nonprofit managers and results also to diminished organizational innovation capability that has no effect on nonprofit organizational effectiveness.

### **1. Introduction**

Nonprofit organizations are currently functioning in complex and volatile environments, characterized by increasing uncertainty, competitiveness, scarceness of resources, and the need for continual change (Eyal and Kark, 2004; Trautmann, Maher, and Motley, 2007). Therefore, nonprofit organizational effectiveness constitutes a compelling and complicated concern that has been amply discussed in the literature and involves somewhat different issues from those in the corporate sector or government (Sowa, Selden, and Sandfort, 2004; Baruch and Ramalho, 2006). The uniqueness of the nonprofit sector, as distinct from the other two sectors mentioned above, points out the need for investigating certain factors that may influence effectiveness in nonprofit organizations. This can create a solid basis for assessing and improving effectiveness in the nonprofit sector as well as for adding value in the society as a whole (Packard, 2010).

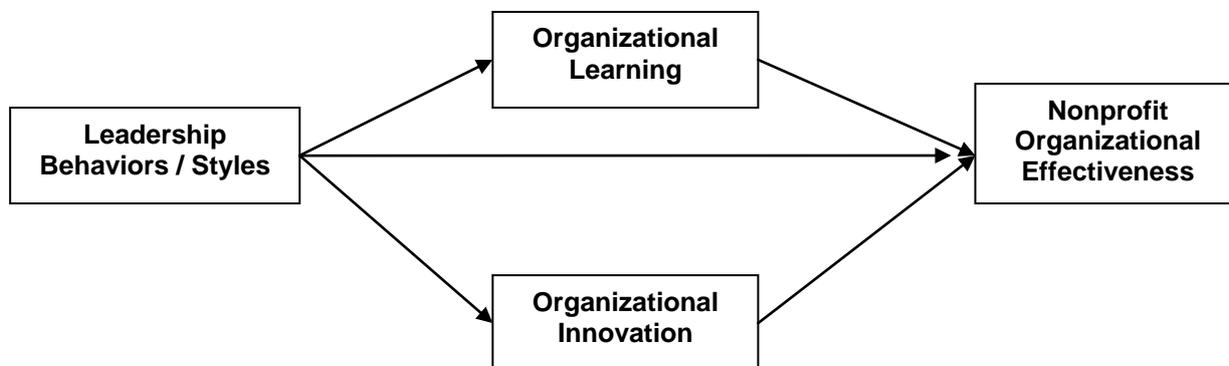
In this context, management research to date has led us to a clear understanding of the existence of different aspects of leadership that have been shown to impact a wide range of organizational outcomes in different ways (e.g. Koene, Vogelaar, and Soeters, 2002) and in a variety of contexts, including the nonprofit sector (e.g. Jaskyte, 2004). To be more specific, different leadership behaviors have very different relationships with outcomes, which

in part seems to depend on the nature of the outcome and the context (Hardy et al., 2010). Most studies that looked at these issues have used the traditional conceptualizations of transformational and transactional leadership to capture leadership behaviors. However, this approach does not address the strategic functions of leaders which are essential for ensuring sustainable organizational effectiveness. Strategic leadership is not included in transformational leadership theories, an omission that might limit the extent to which these theories are able to predict effective leader functioning and the understanding of the contexts in which different types of leadership are important (Antonakis and House, 2004; Makri and Scandura, 2010). At the same time, much has been learned about the positive effects of transformational leadership but far less attention has been paid to transactional leadership and non-leadership / laissez-faire leadership (Hinkin and Schriesheim, 2008).

Thus, many studies in recent years have examined leader behavior in relation to organizational effectiveness. But such direct connections are not easy to make either conceptually or empirically. For example, it could be argued that an individual's behavior (e.g. even a powerful CEO) might be too far removed from the complex, multi-faceted phenomenon of organizational effectiveness. So, it is more useful and beneficial to investigate variables that may mediate the relationship between leader behavior and organizational effectiveness. Organizational learning and related phenomena such as innovation are considered in the literature to be key factors for achieving sustainable competitive advantage. As such, they are commonly considered to be precursors of organizational effectiveness (Waldman, Berson, and Keller, 2009).

In this perspective, the present study focuses in a systematic way on the relationships among leadership behaviors / styles, organizational learning, innovation, and effectiveness in the Greek nonprofit sector, guided by the proposed research model (Figure 1). Specifically, the primary research objective is to attend to existing gaps in the literature among leadership behavior, organizational learning, innovation, and effectiveness using a sample of Greek nonprofit organizations operating at national and / or international levels, in order to examine what leadership behaviors are significant for them and to reveal whether organizational learning and innovation act as pathways to nonprofit organizational effectiveness. Consequently, this study makes three contributions. First, it bridges the existing gap among the concepts of leadership behavior, organizational learning, innovation, and effectiveness in the nonprofit management literature. Second, it combines the investigation of four different leadership behaviors / styles (transformational, strategic, transactional, passive / avoidant) to organizational learning, innovation, and effectiveness. Third, it provides some first empirical data about the effective management practices in the Greek nonprofit sector, which is characterized as relatively underdeveloped with a very weak structure, and a limited impact on society at large (Sotiropoulos and Karamagioli, 2006).

**Figure 1: The Guiding Research Model**



## 2. Theoretical Background and Research Questions

### 2.1 Leadership Behaviors / Styles

Leadership is one of the fundamental driving forces for improving organizational effectiveness. Leaders are the key decision-makers that determine the acquisition, development, and deployment of organizational resources, the conversion of these resources into valuable products and services, and the delivery of value to organizational stakeholders. Therefore, they constitute the potent sources of sustainable competitive advantage (e.g. Zhu, Chew, and Spangler, 2005).

The Full Range Leadership Theory (Bass, 1990) is used as the primary leadership framework in this study because it is one of the most prevalent and accepted frameworks and it has been used by previous studies for the assessment of nonprofit leadership (e.g. Rowold and Rohmann, 2009). Extending the work of Burns (1978), Bass (1985) posited that leadership is composed of three second-order domains: transformational, transactional, and passive / avoidant (*laissez-faire*). In this context, Bass (1985, 1990) supports that transformational and transactional leadership are conceptually separate and independent dimensions, which appear simultaneously in the behavioral repertoire of leaders. Contrary to Burns (1978), who views these two leadership behaviors to be opposite ends of a continuum, Bass (1985, 1990) views transformational leadership as augmenting transactional leadership. Moreover, Bass (1985, 1990) views the specific leadership behaviors as multidimensional concepts composed of several important underlying constructs.

Transformational leadership is associated with motivating, inspiring, and broadening the interests of associates. It is characterized by leader behaviors aimed at raising associates' consciousness about the importance and value of designated outcomes and

ways of achieving them. It also motivates associates to transcend their own immediate self-interest for the sake of the mission and the vision of the organization. Thus, associates' confidence is raised and their needs broadened by the leader to support development to a higher potential (Burns, 1978). In this perspective, transformational leadership constitutes a process of influencing in which leaders change their associates' awareness of what is important, and move them to see themselves and the opportunities and challenges of their environment in a new way (Avolio and Bass, 2004).

The current components of transformational leadership include (Avolio and Bass, 2004):

- *Idealized Influence (Attributes and Behaviors)* – these leaders inspire admiration, respect, and trust, exhibit high standards of moral conduct, engender loyalty from followers, arouse a desire in followers to want to follow them, and encourages them to outperform their own expectations for the greater good.
- *Inspirational Motivation* – these leaders create and communicate a strong purpose and vision for the future in order to energize and unify followers.
- *Intellectual Stimulation* – these leaders stimulate their followers' effort to be innovative and creative and encourage divergent thinking by questioning assumptions, reframing problems, approaching old situations in new ways, and finding alternatives to current practice.
- *Individual Consideration* – these leaders pay attention to each individual's need for achievement and development by acting as a coach or mentor.

Therefore, transformational leadership describes the characteristics of leaders who are most effective in navigating turbulent circumstances and facilitating dramatic organizational change (Trautmann, Maher, and Motley, 2007).

Transactional leadership is characterized by leader behaviors aimed at monitoring and controlling employees and describes attempts to obtain follower agreement to perform tasks required to achieve work unit outcomes based on social exchange. It is composed of behaviors associated with constructive and corrective transactions. The constructive style is named contingent reward and the corrective style is labeled active management-by-exception (Avolio and Bass, 2004):

- *Contingent Reward* – these leaders clarify expectations and offer rewards when goals are achieved.
- *Management-by-Exception (Active)* – these leaders closely monitor for deviances, mistakes, and errors and then take corrective action as quickly as possible when they occur.

These two core behaviors are associated with “management” functions in organizations (Avolio and Bass, 2004).

Passive / avoidant leadership appears to be the antithesis of the leadership construct because it is characterized by the absence of leadership. Passive / avoidant leaders rarely interact with their associates or followers and provide little support or direction. They avoid specifying agreements, clarifying expectations, and providing goals and standards to be achieved by followers. This style has a negative effect on desired outcomes – opposite to what is intended by the leader-manager – and includes the following components (Avolio and Bass, 2004):

- *Management-by-Exception (Passive)* – these leaders do not respond to situations and problems systematically, fail to interfere until problems become serious, and wait for things to go wrong before taking action.
- *Laissez-Faire* – these are the non-leaders because they are absent when needed and they avoid making decisions.

Therefore, the potential value of the Full Range Leadership Theory for nonprofit organizations is obvious and has been underlined by researchers (e.g. Rowold and Rohmann, 2009). Nonprofit leaders cannot rely only on influencing strategies such as rewarding and punishing but they have to inspire their followers and appeal to their higher-order motives by exhibiting transformational leadership behaviors. However, the transformational leadership approach does not address the strategic functions of leaders which are essential for ensuring sustainable organizational effectiveness. Strategic leadership is not included in transformational leadership conceptualization, an omission that might limit the extent to which the full range theory is able to predict effective leader functioning, and the understanding of the contexts in which different types of leadership are important (Antonakis and House, 2004; Makri and Scandura, 2010).

There are various definitions of strategic leadership in management research. It has been defined as the creation of an overall sense of purpose and direction that guides the integrated strategy formulation and implementation in organizations (Shrivastava and Nachman, 1989). Theoretically, strategic leadership directly influences and enhances organizational effectiveness, and might also facilitate the charismatic effect. In this perspective, effective leaders, apart from being authentic transformational leaders, must also exhibit strategic leadership, and that leadership behavior can be conceptualized in two distinct factors (Antonakis and House, 2004):

- *Environmental Monitoring* – these leaders understand the organizational constraints and exploit the opportunities of the external environment.
- *Strategy Formulation and Implementation* – these leaders set specific organizational objectives, develop strategies, and implement specific policies to support the accomplishment of the organizational vision and mission.

Given the fact that nonprofit organizations are fundamentally resource-dependent, effective leadership behaviors and actions are largely determined by the constraints and opportunities of the external environment. In this perspective, effective nonprofit chief executive officers understand their leadership role and accept responsibility as initiators of action – with their boards – to find resources and revitalize the missions and strategies of their organizations (Heimovics, Herman, and Jurkiewicz, 1995). Thus, strategic leadership behavior seems to be crucial for achieving nonprofit organizational effectiveness.

## **2.2 Organizational Learning and Innovation**

To maintain viability and flourish in the new knowledge economy, organizations must have effective learning processes (Hannah and Lester, 2009). In this context, one of the greatest challenges for leadership in organizations is how to create the proper conditions that encourage, develop, and sustain organizational learning and innovation. Organizational learning has been defined in various ways, but a central aspect of most definitions is collective learning by members of the organization (Yukl, 2009). The emphasis is put on strategic renewal which supports that organizations explore new ways and exploit what they have learned. Vera and Crossan (2004) have linked leadership behaviors and organization learning, by suggesting that both transformational and transactional leaders stimulate exploration and exploitation. Transformational leaders usually inspire learning that challenges the status quo, while transactional leaders facilitate learning that reinforces existing practices.

In this perspective, nonprofit leaders must aggressively integrate learning organization concepts into their organizations. Learning organization dimensions influence performance in nonprofits (McHargue, 2003), but the movement toward a learning organization is a long-term process that is based on the development of certain dimensions (Marsick and Watkins, 2003):

- *Continuous Learning* – learning is designed into work and people can learn on the job; opportunities for ongoing training and development are provided.
- *Inquiry and Dialogue* – organizational culture supports questioning, feedback, and experimentation.
- *Collaboration and Team Learning* – groups in the organization work and learn together; organizational culture promotes and rewards collaboration.
- *Systems to Capture and Share Learning* – access is provided to high- and low-technology systems to share learning; these systems are developed and integrated with work.
- *Empowerment of the People toward a Collective Vision* – people are involved in planning and implementing a common vision, so they are motivated to learn toward it.

- *Connection of the Organization to its Environment* – people are able to see the influence of their work on the entire organization; they are also able to monitor the environment and use information to improve work practices; the organization is linked to its stakeholders.
- *Strategic Leadership for Learning* – leadership uses learning in a strategic way in order to achieve performance results.

Different researchers of organizational learning have applied this term to describe different domains. Among these domains is innovation (Nonaka, 1994). Innovation is an important activity for any organization that has been positively linked to organizational performance (Han, Kim, and Srivastava, 1998). Effectiveness, and even survival, requires that nonprofits operate more like for-profit organizations, seeking competitive advantage through innovation (Dart, 2004; Jaskyte, 2004). Surprisingly, little empirical work has been done in the area of innovation in nonprofit organizations (McDonald, 2007). Therefore, this study approaches organizational innovation as an outcome that manifests itself in emphasizing strongly on R&D, technological leadership, and innovations, introducing many new lines of products, services, and / or programs, and having dramatic changes to products, services, and / or programs (Covin and Slevin, 1989).

### **2.3 Nonprofit Organizational Effectiveness**

Nonprofit organizations attract a variety of stakeholders that may have different views on the primary roles of nonprofit activity, and thus different expectations of what organizations can or should accomplish. Additionally, nonprofit organizations themselves need information for their daily operation, specifically to monitor expenditure and whether they perform in pursuit of their primary objectives (Kendall and Knapp, 2000). In this regard, nonprofit organizations face three distinct challenges: responding to stakeholder requests (market-based), meeting internal demands to maximize impact (mission-based), and using data for learning and improvement (management-based) (Saul, 2003). Therefore, nonprofit organizational effectiveness and performance is the prime dependent variable in many studies. Although there is no definitive meaning of organizational effectiveness, the majority of authors agree that it requires measuring multiple criteria, evaluating different organizational functions by using various characteristics, and considering both processes and outcomes (Shilbury and Moore, 2006).

There is little consensus on what constitutes good evaluation in the nonprofit sector, what should be measured, and how effectiveness indicators should be used by the various stakeholders. Some outputs of nonprofit activity are difficult to find, while others are more obvious (Frumkin, 2002). However, based on the nonprofit literature (e.g. Kendall and

Knapp, 2000; Saul, 2003; Sowa et. al, 2004; Bagnoli and Megali, 2011), there are four key components of nonprofit organizational effectiveness:

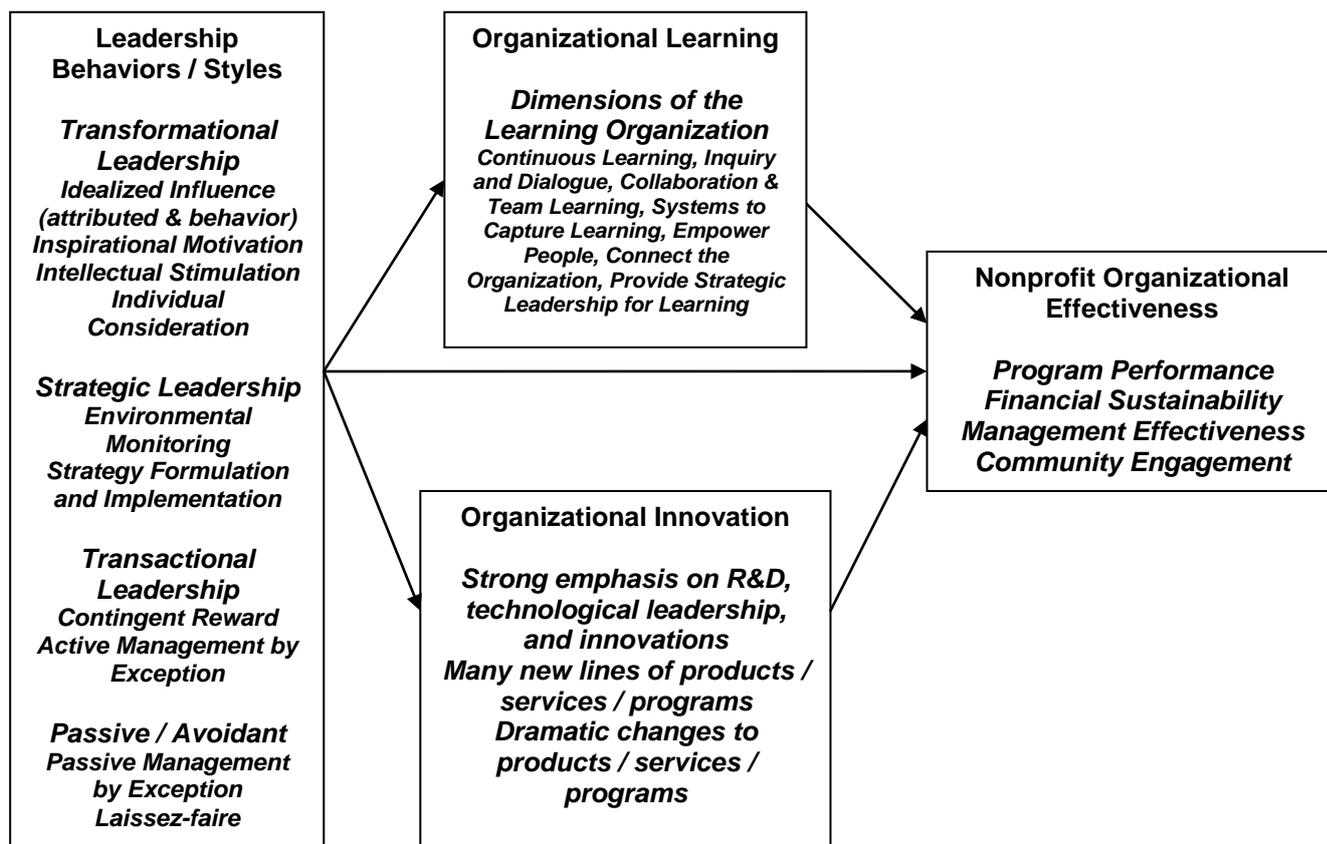
- *Program Performance* – refers to the performance of the specific services or interventions that are provided by the organizations and includes the variables that are related to the capacity of the programs as well as the outcomes created by the interventions.
- *Financial Sustainability* – refers to the economic / financial performance that is linked to the achievement of general performance (e.g. profits, value added) and analytic results (e.g. efficiency indicators).
- *Management Effectiveness* – refers to the variables that represent the outcomes of the management systems and activities and assess capacity (structure and process).
- *Community Engagement* – refers to social effectiveness, measures the quantity and quality of work undertaken, and identifies its impact on the intended beneficiaries and the community.

#### **2.4 Guiding Research Model and Research Questions**

The literature on leadership behaviors, organizational learning, innovation, and effectiveness suggests that exploring the relationships among these variables might contribute to a better understanding of the processes that influence organizational effectiveness. Specifically, previous empirical research has shown the need for leadership behaviors that are more intellectually stimulating and charismatic, and has indicated that transformational leadership has a positive effect on organizational outcomes (Zhu, Chew, and Spangler, 2005). Furthermore, some studies have used learning variables as outcomes to common measures of leadership, such as transformational leadership, or examined leadership roles in learning in certain settings (Berson et al, 2006). Simultaneously, a wide range of factors has been found to affect organizational innovation. Of these, top managers' leadership style has been identified as being one of the most, if not the most, important (Jung, Chow, and Wu, 2003). Additionally, the importance of organizational learning and related phenomena such as innovation for an organization's survival and effective performance has been highly emphasized in the literature (Inkpen and Crossan, 1995, Waldman, Berson, and Keller, 2009).

In this context, the guiding research model is presented in Figure 2 in an extended version. This model summarizes the hypothesized links among the four leadership behaviors, organizational learning, innovation, and nonprofit effectiveness.

**Figure 2: The Guiding Research Model Extended**



Given the exploratory nature of the present study, the following research questions were used rather than formal hypotheses, in order to test the proposed links.

**Research Question 1:** What is the relationship of the four leadership behaviors / styles (transformational, strategic, transactional, passive / avoidant) to organizational learning, innovation, and effectiveness in the Greek nonprofit sector?

**Research Question 2:** What is the relationship of each one leadership behavior to organizational learning, innovation, and effectiveness in the Greek nonprofit sector?

**Research Question 3:** Which of the four leadership behaviors leads most to organizational effectiveness in the Greek nonprofit sector? Or, in other words, which of the four leadership behaviors generates the highest level of organizational effectiveness in the Greek nonprofit sector?

**Research Question 4:** Which nonprofit organizations are most effective, these with the unitary / single or composite / combined leadership behaviors approach? Or, alternatively, the adoption of one clear / distinct leadership behavior or a blended / combined approach by the top managers is more effective in the Greek nonprofit sector?

## **2.5 Study Context**

The present empirical study was conducted in Greek nonprofit organizations operating at national and / or international levels. Basically, the absence of a strong nonprofit sector constitutes a structural characteristic of the Greek society (Polyzoidis, 2009). To be more specific, the Greek nonprofit sector is relatively underdeveloped and poorly organized with a very weak structure and a limited impact on society at large, but it exists in a relatively enabling environment with rather positive values. Most formal nonprofit organizations do not attract a significant number of members or a significant amount of funds. However, the existence of informal groups plays an important role in Greek society (Sotiropoulos and Karamagioli, 2006).

Additionally, a legal and institutional framework for the operation of nonprofit organizations in Greece as well as concrete information on the identification of the sector organizations, their activity, their staff, and other information regarding them do not exist. The estimates about the number of nonprofits and their contribution in Greek society and economy are almost subjective, thus raising the question of an invisible sector (Sotiropoulos, 2004). Their number varies as there are no official records, something that could be attributed to the lack of consistent government policy towards the sector and the different set of criteria and definitions that are adopted. These inconsistent and sporadic government policies towards nonprofit organizations have led to the segmentation of the sector and the development of a wide variety of organizational forms. Thus, the nonprofit sector has hardly developed and hardly managed to bring about any major accomplishments (Polyzoidis, 2009).

As a result, the Greek nonprofit sector performance is very weak with its contribution to social capital building and its participation in policy-making to be limited. Moreover, Greek nonprofit organizations use a small amount of voluntary participation, depend on the state, and fail to invite and accept members from wider social groups. Their performance in planning, organizing, leading, and controlling is relatively poor (Polyzoidis, 2009).

## **3. Method**

### **3.1 Sample and Procedures**

Since there is no comprehensive database of nonprofit organizations in Greece, a purposive sampling approach was used, with participating nonprofit organizations and managers selected because they are information-rich cases (Easterby-Smith, Thorpe, and Lowe, 1991). The author compiled a list of 232 nonprofit organizations from a number of sources, including government and internet listings of nonprofit organizations, based on the

structural / operational definition of the nonprofit sector (Salamon and Anheier, 1992). This definition illustrates that nonprofit organizations are formal, private, non-profit distributing, self-governing, and voluntary. Each responding organization provided a contact person (typically president or program director). This person was visited personally by the author, who explained the general nature of the study without revealing the specific research questions. Then the contact person was provided with a copy of the questionnaire and given explicit instruction for its completion. To encourage truthful responses in light of many questions' sensitive nature (e.g., the executive's leadership behaviors, and organizational performance aspects), complete confidentiality and anonymity was guaranteed for both respondents and their organizations.

This resulted to usable survey responses from 100 top managers of 100 leading nonprofit organizations operating at national and / or international levels (43% response rate). This data collection procedure was very demanding and time-consuming, because the questionnaires were administered face to face only by the author in order to ensure that the right person participated in the survey. The data collection procedure is still in progress, so an improved response rate is expected in the future. While some researchers argue that the use of a single respondent may be unreliable, other authors suggest that this issue may not be a problem in certain contexts. Additionally, other researchers have presented the potential negative effect of multiple respondents on usable response rates, the difficulties of survey administration, and the problems arising from poor inter-rater reliability (e.g. Ogbonna and Harris, 2000).

Because the survey was administered in Greek, Brislin's (1986) recommendation of translation and back-translation was followed to ensure conceptual equivalence between the original instruments (in English) and the Greek versions. The survey was first translated into Greek by a bilingual individual who was not told the objective of the study. Then, another bilingual person back-translated this into English without having access to the original instruments. Only a few minor changes to the Greek survey were triggered by comparing the back-translated and original English versions.

The majority of the survey participants were women (59%) and between the 31 – 50 years old (56%). The vast majority (91%) has a university degree or above and the 68% had been working for their organization for 1 – 10 years. The responding organizations, however, were quite diverse. The 100 organizations had been in existence for around 21.14 years on average (SD = 17.92 years). Moreover, they had 29 full-time and 5 part-time employees on average, as well as 768 volunteers on average. Their fields of nonprofit activity were: 15 organizations on culture, 14 on education and research, 15 on health, 13 on social services, 16 on environment, 2 on development, 12 on civic and advocacy, 3 on philanthropy, 5 on

international activities, 1 on religious congregations, 1 on business and professional unions, and 3 on other activities.

### **3.2 Measures**

The development of a questionnaire which is appropriate for its research objectives constitutes a crucial aspect of survey methodology (Ogbonna and Harris, 2000). In this context, a review of existing theories, operationalizations, and measures suggested that the measurement of certain leadership behaviors, organizational learning, organizational innovation, and organizational effectiveness in the nonprofit sector could be reliably achieved with the adoption of measures adapted from the extant literature.

*Transformational, transactional, and passive / avoidant leadership* was measured using a 36-item scale from the Multifactor Leadership Questionnaire (MLQ) developed by Bass and Avolio (1997). To assess transformational leadership, the five MLQ subscales (20 items) of inspirational motivation, idealized influence (attributed), idealized influence (behavior), intellectual stimulation, and individualized consideration were implemented. Two MLQ subscales (8 items), contingent reward and active management by exception, were implemented to assess transactional leadership. Additionally, to assess passive / avoidant leadership, the two MLQ subscales (8 items) of passive management by exception and laissez-faire were implemented. *Strategic leadership* was measured using a 4-item scale based on the study of Antonakis and House (2004) that reflects the two distinct factors of environmental monitoring, and strategy formulation and implementation.

*Organizational learning* was measured using a 43-item scale from the Dimensions of the Learning Organization Questionnaire (DLOQ) developed by Marsick and Watkins (2003) that includes the following seven subscales: (a) continuous learning, (b) dialogue and inquiry, (c) team learning, (d) embedded system, (e) system connection, (f) empowerment, and (g) provide leadership (Marsick and Watkins, 2003; McHargue, 2003). *Organizational innovation* was measured using a 3-item scale adopted from the study of Covin and Slevin (1989) that conceptualizes organizational innovation as emphasizing strongly on R&D, technological leadership, and innovations, introducing many new lines of products, services, and / or programs, and having dramatic changes to products, services, and / or programs. *Organizational effectiveness* was measured using a 7-item scale based on several studies on nonprofit effectiveness (Kendall and Knapp, 2000; Saul, 2003; Sowa et. al, 2004; Bagnoli and Megali, 2011) that reflects the aspects of program performance, financial sustainability, management effectiveness, and community engagement.

### **3.3 Data Analysis**

Research questions were tested using the partial least squares structural equation modeling technique (PLS) (Wold, 1985). PLS generates estimates of standardized regression coefficients (i.e., path coefficients) for the model paths, which can then be used to measure the relationships among latent variables. PLS is increasingly being adopted by management researchers because it does not require a large sample for data analysis. In addition, PLS does not make assumptions about (a) data distributions to estimate model parameters, (b) observation independence, or (c) variable metrics. This feature makes it more suitable than other techniques, like multiple regression, that require multivariate normality, interval scaled data, and large sample sizes (Jung, Chow, and Wu, 2003).

## **4. Results**

### **4.1 Results for the Measurement Component**

A preliminary PLS analysis was ran with all of the survey items of the five alternative models, in order to test the scales' psychometric properties. Three criteria were used to determine whether any item indicator should be retained. First, the factor loadings of indicators associated with each construct had to be 0.60 or above to ensure adequate reliability (Bagozzi and Youjae, 1988). Second, the composite scale reliability for each construct had to exceed the recommended cutoff of 0.70. Finally, the average variance extracted by the preceding latent constructs from their indicators had to exceed the recommended cutoff of 0.50 (Fornell and Larcker, 1981). Application of these criteria (to the full model that includes all the leadership behaviors) led to the retention of 3 items for transformational leadership, 3 items for strategic leadership, 4 items for transactional leadership, and 4 items for passive / avoidant leadership. Table 1 shows descriptive statistics and intercorrelations among the variables. Table 2 summarizes the factor loadings and weights of retained indicators, the composite scale reliabilities, and the average variance extracted. All of the measures had adequate reliability. The application of these criteria to the other four models (that include only one of the alternative leadership behaviors) had quite similar results, so they are not presented but they are available upon request.

**Table 1**  
**Descriptive Statistics and Intercorrelations among the Constructs (n = 100 organizations)**

Variables	M	SD	Intercorrelations							
			1	2	3	4	5	6	7	
1. Transformational Leadership	3.15	0.45	0.71*							
2. Strategic Leadership	3.25	0.61	0.47	0.77*						
3. Transactional Leadership	3.15	0.57	0.56	0.47	0.76*					
4. Passive / Avoidant	0.65	0.58	-0.47	-0.31	-0.25	0.77*				
5. Organizational Learning	4.80	0.77	0.23	0.41	0.30	-0.32	0.80*			
6. Organizational Innovation	4.98	1.43	0.20	0.29	0.17	-0.38	0.67	0.85*		
7. Organizational Effectiveness	4.07	0.60	0.34	0.37	0.39	-0.35	0.53	0.37	0.73*	

\*Values on the diagonal represent the square root of the average variance extracted. Values off the diagonal are correlations between constructs

**Table 2**  
**Factor Loadings, Weights, Composite Scale Reliability, and Average Variance Extracted to assess Reliability of Constructs (n = 100 organizations)**

Construct	Measure	Factor loading	Weights of measures	Composite scale reliability	Average variance extracted
1. Transformational Leadership	Idealized Attributes (IA)	0.85	0.31	0.83	0.51
	Individual Consideration (IC)	0.78	0.37		
	Inspirational Motivation (IM)	0.85	0.38		
2. Strategic Leadership	Environmental Monitoring (i2)	0.81	0.33	0.85	0.59
	Strategy Formulation and Implementation (i3)	0.89	0.37		
	Strategy Formulation and Implementation (i4)	0.88	0.39		
3. Transactional Leadership	Contingent Reward (I11)	0.81	0.41	0.72	0.57
	Contingent Reward (I16)	0.70	0.35		
	Active Management by Exception (I24)	0.71	0.41		
	Contingent Reward (I35)	0.62	0.26		
4. Passive / Avoidant	Passive Management by Exception (I12)	0.70	0.32	0.76	0.59
	Passive Management by	0.70	0.31		

	Exception (I20)				
	Laissez-faire (I28)	0.63	0.34		
	Laissez-faire (I5)	0.66	0.29		
5. Organizational Learning	Continuous Learning (ContLearn)	0.79	0.19	0.92	0.64
	Inquiry and Dialogue (InqDial)	0.67	0.11		
	Collaboration and Team Learning (CollTLearn)	0.79	0.16		
	Systems to Capture Learning (SystCaptL)	0.79	0.21		
	Empower People (EmpPeopl)	0.87	0.21		
	Connect the Organization (ConnOrgan)	0.85	0.19		
	Provide Strategic Leadership for Learning (ProvStrLead)	0.82	0.16		
6. Organizational Innovation	Innovation (INNOV1)	0.91	0.61	0.89	0.73
	Innovation (INNOV2)	0.88	0.28		
	Innovation (INNOV3)	0.77	0.27		
7. Organizational Effectiveness	Management Effectiveness (PERF1)	0.78	0.27	0.89	0.53
	Management Effectiveness (PERF2)	0.79	0.26		
	Management Effectiveness (PERF3)	0.85	0.22		
	Program Performance (PERF4)	0.61	0.13		
	Financial Sustainability (PERF5)	0.63	0.17		
	Community Engagement (PERF6)	0.70	0.16		
	Community Engagement (PERF7)	0.71	0.15		

## 4.2 Results for the Structural Component

Results of the PLS analysis for the five alternative models are shown in Table 3.

**Table 3**  
**Results of PLS Analysis (n = 100 organizations)**

Proposed Path	Standardized Path (path coefficient)	t-value
<b>1. Full Model: All Leadership Styles → OL, OI, OE</b>		
Transformational Leadership → Organizational Learning	-0.12	0.84
Transformational Leadership → Organizational Innovation	-0.08	0.51
Transformational Leadership → Organizational Effectiveness	0.05	0.06
Strategic Leadership → Organizational Learning	0.33	2.96*
Strategic Leadership → Organizational Innovation	0.21	1.97**
Strategic Leadership → Organizational Effectiveness	0.05	1.78
Transactional Leadership → Organizational Learning	0.15	1.21
Transactional Leadership → Organizational Innovation	0.03	0.28
Transactional Leadership → Organizational Effectiveness	0.18	2.23**
Passive / Avoidant → Organizational Learning	-0.24	1.58
Passive / Avoidant → Organizational Innovation	-0.34	2.55**
Passive / Avoidant → Organizational Effectiveness	-0.14	1.69
Organizational Learning → Organizational Effectiveness	0.40	2.60*
Organizational Innovation → Organizational Effectiveness	-0.01	0.08
<b>2. Transformational Leadership → OL, OI, OE</b>		
Transformational Leadership → Organizational Learning	0.23	1.57
Transformational Leadership → Organizational Innovation	0.21	1.37
Transformational Leadership → Organizational Effectiveness	0.22	2.20**
Organizational Learning → Organizational Effectiveness	0.49	3.42*
Organizational Innovation → Organizational Effectiveness	0.01	0.05
<b>3. Strategic Leadership → OL, OI, OE</b>		
Strategic Leadership → Organizational Learning	0.42	3.73*
Strategic Leadership → Organizational Innovation	0.29	2.66*
Strategic Leadership → Organizational Effectiveness	0.17	3.34*
Organizational Learning → Organizational Effectiveness	0.46	3.11*
Organizational Innovation → Organizational Effectiveness	0.03	0.23
<b>4. Transactional Leadership → OL, OI, OE</b>		
Transactional Leadership → Organizational Learning	0.29	2.73*
Transactional Leadership → Organizational Innovation	0.18	1.52
Transactional Leadership → Organizational Effectiveness	0.25	4.03*
Organizational Learning → Organizational Effectiveness	0.46	3.20*
Organizational Innovation → Organizational Effectiveness	0.03	0.27

<b>5. Passive / Avoidant → OL, OI, OE</b>		
Passive / Avoidant → Organizational Learning	-0.33	3.04*
Passive / Avoidant → Organizational Innovation	-0.38	4.05*
Passive / Avoidant → Organizational Effectiveness	-0.20	3.01*
Organizational Learning → Organizational Effectiveness	0.55	4.13*
Organizational Innovation → Organizational Effectiveness	-0.06	0.34

\*p &lt; .01

\*\*p &lt; .05

## 5. Discussion

### **Research Question 1: *What is the relationship of the four leadership behaviors to organizational learning, innovation, and effectiveness in the Greek nonprofit sector?***

This study provides empirical support for the links among certain leadership behaviors (transformational, strategic, transactional, and passive / avoidant), organizational learning, innovation, and effectiveness in the Greek nonprofit sector. Specifically, the results of this study for the full model that combines the four alternative leadership behaviors and assess their direct relationships with organizational learning, innovation, and effectiveness indicate the following:

- Transformational leadership is not related to organizational learning, innovation, and effectiveness.
- Strategic leadership is positively related to organizational learning and innovation, but it is not related to effectiveness.
- Transactional leadership is positively related only to organizational effectiveness.
- Passive / avoidant leadership is negatively related to organizational innovation.
- Organizational learning is positively related to organizational effectiveness, but this is not the case for organizational innovation.

### **Research Question 2: *What is the relationship of each one leadership behavior to organizational learning, innovation, and effectiveness in the Greek nonprofit sector?***

The results for the model that assesses the direct relationships among transformational leadership and organizational learning, innovation, and effectiveness show the following:

- Transformational leadership is positively related only to organizational effectiveness.
- Organizational learning is positively related to organizational effectiveness, but this is not the case for organizational innovation.

The results for the model that assesses the direct relationships among strategic leadership and organizational learning, innovation, and effectiveness indicate the following:

- Strategic leadership is positively related to organizational learning, innovation, and effectiveness.
- Organizational learning is positively related to organizational effectiveness, but this is not the case for organizational innovation.

The results for the model that assesses the direct relationships among transactional leadership and organizational learning, innovation, and effectiveness indicate the following:

- Transactional leadership is positively related to organizational learning and effectiveness, but it is not related to organizational innovation.
- Organizational learning is positively related to organizational effectiveness, but this is not the case for organizational innovation.

The results for the model that assesses the direct relationships among passive / avoidant behavior and organizational learning, innovation, and effectiveness show the following:

- Passive / avoidant behavior is negatively related to organizational learning, innovation, and effectiveness.
- Organizational learning is positively related to organizational effectiveness, but this is not the case for organizational innovation.

**Research Question 3: *Which of the four leadership behaviors leads most to organizational effectiveness in the Greek nonprofit sector?***

Consequently, the results of this study suggest that strategic and transactional leadership styles lead most to organizational effectiveness in the Greek nonprofit sector. In the full model that includes the four leadership behaviors combined, strategic leadership shows strong positive relationships to organizational learning and innovation, while transactional leadership has a strong positive relationship to organizational effectiveness. Surprisingly, transformational leadership does not appear to have significant relationships with the organizational level variables. On the other hand, passive / avoidant behavior has a significant negative relationship to organizational innovation. At the same time, the examination of the four models that include each distinct leadership behavior reveals that strategic leadership has strong positive relationships to all the organizational level outcomes, while transactional leadership has strong positive relationships to organizational learning and effectiveness, and transformational leadership is positively related only to organizational effectiveness. Passive / avoidant behavior has a significant negative relationship to all the organizational level variables. Similar to all the alternative models was the finding that

organizational learning is positively related to organizational effectiveness, but this is not the case for organizational innovation.

**Research Question 4: *Which nonprofit organizations are most effective, these with the unitary / single or composite / combined leadership behaviors approach?***

Thus, the adoption of strategic and transactional leadership behaviors by the top managers is on this evidence the most effective approach for the Greek nonprofit sector. The Greek nonprofit sector is weak, relatively underdeveloped, and poorly organized. In this context, the adoption of strategic and transactional leadership behaviors by the nonprofit executives might influence in a stronger way organizational level outcomes, such as learning, innovation, and effectiveness. Of course, passive / avoidant behaviors should not be applied by the nonprofit leaders because they influence negatively organizational effectiveness.

***Study Limitations***

Finally, some limitations of the present study should be acknowledged. All the variables are collected from the same source. As a consequence, common-method variance may have inflated the reported relationships (Avolio, Yammarino, and Bass, 1991). Future research could include different sources of information. Moreover, future research should rely on longitudinal or experimental designs to allow for more causal interpretation of relationships between leadership behaviors and organizational level outcome variables. More research based on data from more organizations (increase in the sample size / response rate) is needed to replicate the results that identified in this study. Thus, before the results of the present study could be generalized, future research should replicate them in nonprofit organizations from different countries that are similar to Greece.

***Conclusion***

Leadership behavior of nonprofit top executives appears to be an important antecedent of a nonprofit organization's ability to learn, innovate, and achieve superior performance and long-term survival. Therefore, leadership matters in the nonprofit sector but it also depends on the developmental phase of the sector and the organizations. In this perspective, the relatively underdeveloped, weak, and poorly organized nature of the Greek nonprofit sector makes more effective the adoption of more basic leadership styles, like strategic and transactional leadership, by the nonprofit managers. Furthermore, this study provides the validation that organizational learning constitutes a pathway to nonprofit organizational effectiveness. But this is not the case for organizational innovation, which is also a result of the underdeveloped nature of the sector that leads to diminished organizational innovation capability.

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