

Walden University

College of Social and Behavioral Sciences

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Walden University
2016

Abstract

Differences in Financial Performance of Nonprofit Arts
Organizations Across Executive Director Leadership Styles

by

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MBA, Hampton University, 1992

BS, Hampton University, 1990

Dissertation Submitted in Partial Fulfillment
of the Requirements for the Degree of
Doctor of Philosophy
Public Policy and Administration

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Abstract

Philanthropic contributions to arts organizations in 2013 increased 4.4%, yet some U. S. nonprofit arts organizations show poor financial performance. Executive leadership style is a well-documented tool that influences performance of for-profit organizations. The purpose of this study was to examine the relationship between leadership styles of nonprofit arts executive directors and financial performance measured in dollar amounts of contracts, grants, and annual personal philanthropic gifts. Transformational leadership was the theoretical foundation for the study. The Multifactor Leadership Questionnaire (MLQ) was administered online to executive directors of 117 nonprofit arts organizations within the Dayton-Cincinnati metropolitan area. Differences in the means of organizational financial ratios for each identified leadership style were measured using analysis of variance. Results indicated no statistically significant differences between leadership styles and organizational financial performance. Additional research including a larger, less homogenous population and the multirater form of the MLQ is recommended. Social change implications include recommendations to executive leaders to understand the impact of leadership on programmatic decisions to maximize financial performance and increase community stability by preventing closure of nonprofit arts organizations.

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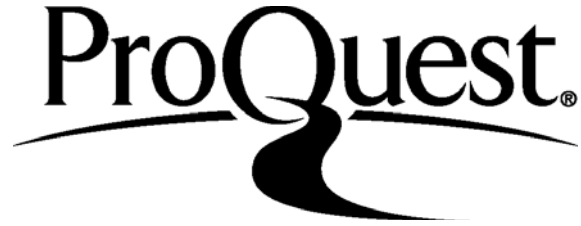
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Dedication

To my husband, Therial L. Alsup, Jr., and my son, Therial L. Alsup, III, thank you for your love, support, encouragement, and patience. Without your unconditional love and unwavering support, my quest to earn my doctorate would not have been possible. Thank you for supporting me and believing in me even when I did not believe in myself.

To my parents, Franklin D. and Willa White, thank you for understanding my incurable thirst for knowledge and encouraging me each and every day. Thank you for raising me to be the woman I am today and instilling the value of education in me from a young age.

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Chapter 1: Introduction to the Study

Defining and assessing leadership styles within nonprofit arts organizations is not a simple endeavor. Effective leadership is critical during times of dwindling budgets and increased economic instability (Peck, 2012). According to Anheier (2014), not only must a leader inspire and empower staff members and funders, a leader must use all tools available during a volatile economic environment to effectively lead the organization and secure continuing and additional funding to support the organizational mission.

One way of determining how well a nonprofit organization is fulfilling its mission is to assess the financial performance of the organization. Epstein and McFarlan (2011) explained that an assessment of nonprofit financial performance can provide insight into the sources and uses of funding, service delivery cost, and the likelihood that the organization will be able to continue to operate as a going concern. However, financial information alone cannot tell the whole story of how well the organization is fulfilling its mission. An equally important aspect of nonprofit financial performance is the essential ingredient of leadership. Johnson (2009) asserted that leadership occurs within a group context and is characterized by exercising influence over those within the group. The leader who is able to exert influence by assessing the needs, wants, and goals of the group members is a change agent who is capable of balancing the interrelationship of both supervisors and team members (Northouse, 2015).

The function of leadership is not limited to job titles or positions and may be found throughout the various echelons within an organization (McCrimmon, 2005). The power and ability to lead others is rooted in the capacity to influence the group either

that, positively or negatively to work toward a common goal. This influence manifests itself as motivation and enables group members to contribute their attributes to the mission and efficacy of the institution. For the continued financial and operational success of nonprofit organizations, the quality of programming, economic activities, and leadership style of the executive director must be measured to better address the volatile financial environment that nonprofit organizations are currently facing (Anheier, 2014).

Problem Statement

Although total estimated giving to arts in 2013 increased 4.4% (Giving USA, 2014), in prior years there had been a decrease in giving following the effects of the recession. Many nonprofit arts organizations are facing cutbacks or complete closure. There is a need for these organizations to do more with fewer financial resources to continue to provide community enrichment (Nonprofit Finance Fund, 2015). The loss of nonprofit arts organizations may have significant economic repercussions within the community, which would then hinder community development and revitalization efforts (Americans for the Arts, 2014). Tourists and patrons expend disposable income viewing various arts and cultural performances that benefit the local communities (Americans for the Arts, 2014). Moreover, monetary disbursements by cultural organizations indirectly affect local communities. In addition to increasing the attractiveness of areas to tourists and businesses, nonprofit arts organizations enhance goodwill and distinction within the community (Americans for the Arts, 2014). This leads to favorable community characteristics such as diversification and freedom of speech. For these benefits to continue, arts organizations must remain viable by using all available tools to maintain

financial performance so that they remain open. The executive director's leadership style may be one of those tools that affect financial performance. According to Watson and Hoefler (2013) ineffective nonprofit executive director leadership can negatively influence fund-raising, fiscal performance, and the organization's ability to accomplish the mission.

There is extensive literature addressing an executive director's leadership style and functional accountability. Taylor, Cornelius, and Colvin (2014) asserted that organizational effectiveness is affected by the leadership style of the executive director, which can extend to financial activity. Martinez-Camillo and Fernandez-Gago (2011) found that organizational performance may be related to transformational leadership. Martinez-Camillo and Fernandez-Gago showed that CEO leadership style influenced performance of the firm, which in turn extended to financial performance. Increased awareness of the connection between executive directors' (ED's) leadership style and financial performance within nonprofit arts organizations may help organizations find ED's who may be able to keep arts organizations open and providing benefits to communities. Wolf (2012) asserted that leadership is an aspect of sustainability of nonprofit organization. The person ultimately responsible for both leadership and financial success of the nonprofit arts organization is the executive director (Brinckerhoff, 2009). The lack of empirical evidence on the relationship between executive director leadership style and financial performance may prevent nonprofit arts organizations from receiving the necessary financial resources to continue providing services to the community.

Background of the Study

Research on charismatic leadership as well as transformational leadership has been dominated by research conducted in for-profit organizations (Dym & Hutson, 2006). Until recently, research on leadership in the nonprofit and philanthropic sectors has been scarce. Although the amount of literature on leadership within nonprofit organizations is vast, many articles do not address which leadership styles used by executive directors' result in the most funding being received.

As organizational budgets dwindle and more services are being requested of nonprofits, it is important to examine the relationship between leadership style and external funding received to make up potential budgetary shortfalls. Though some experts have stated that the U.S. recession is over, the budgetary constraints currently in place may continue or may further restrict governmental and organizational funding received by nonprofits. The economic climate and the increasing demand for services mean that executive directors must be able to creatively use the current funding as well as seek and receive additional donations. The new funding may be tied to the leadership style used by the executive director. Budgeting, funding, organizational health, and financial performance are essential responsibilities of the executive director (Wolf, 2012).

The nonprofit arts organization sector fuels economic growth in many metropolitan areas. This expanding sector generates employment opportunities and revenues and is the foundation of recreational activities in many communities (Giving USA, 2014). This sector generates “\$135.2 billion in economic activity—\$61.1 billion by the nation’s nonprofit arts and culture organizations in addition to \$74.1 billion in

event-related spending by their audiences” (Americans for the Arts, 2014, p. 2). The arts play a critical role in the economy and play a significant role in learning and discovery for many (Skinner, Ekelund, & Jackson, 2009). The diversity of the arts community fosters an understanding of the human condition, a richer culture, and enrichment of those they serve (Knowles & Cole, 2008). Nonprofit arts organizations allow some cities to redefine themselves by serving as cultural hubs of investment and tourism. The link between leadership style and the amount of funding and donations received must be considered to fully understand the relationship between leadership style and improved financial performance. In addition, it is important to determine how executive directors can use a particular leadership style to receive necessary funding to continue providing the benefits to the communities and those they serve.

Roles and Responsibilities of Executive Directors of Nonprofit Organizations

The executive director of a nonprofit organization is often the “single most important person in determining the effectiveness and the morale of the staff, establishing the quality of the work environment, and projecting the organization’s image in the community” (Wolf, 2012, p. 133). The executive director must take on the additional duties of board development and fund-raising while establishing a relationship with the chairperson of the board as well as the board of directors. According to Carver and Carver (1996), “no single relationship in the organization is as important as that between the board and its chief executive officer” (p. 17). Nonprofit executive directors are held accountable for the accomplishments and shortcomings of the organization, which includes organizational funding and financial performance. Due to this linkage, “the

most suitable person to approach a prospective donor is the executive director or chief executive officer of the not-for-profit agency” (Weinstein, 2002, p. 4). The executive director’s board must establish policy as well as strategically plan and oversee the programs that support the mission. In addition, the board should select and establish measurements to ensure that the nonprofit is operating effectively and efficiently. These duties of the board include establishing fiscal policy and providing adequate resources for organizational activities (Wolf, 2012). If the board does not perform these duties effectively, the executive director must manage what the board does and how it does it.

The executive director must also cultivate relationships with those who serve in the financial office within the nonprofit organization. With respect to budgeting, Weinstein (2002) stated that “the executive director, finance director, treasurer and the board finance committee have responsibility for monitoring the performance” (p. 29) within the organization. In addition, the executive director is responsible for the performance of the development director who budgets the resources for fund-raising and resource development (Weinstein, 2002). If these duties are not performed by those to whom they have been delegated, the executive director must ultimately take responsibility for them. Communication and relationship building are critical elements in successful completion of these duties.

For the executive director to effectively perform these duties as well as additional duties not described above, he or she must effectively use a leadership style that allows for the successful completion of organizational goals. To complete the goals that support the organizational mission and vision, the executive director must know when and how to

act as a leader, manager, and supporter (Carlson & Donohoe, 2010). The responsibilities and roles are directly tied to the leadership style of the executive director. If any relationship exists between ED leadership style and financial performance, this relationship should be communicated to executive directors, which may help them learn how to effectively meet organizational needs.

Nature of the Study

I analyzed a combination of archival data and cross-sectional survey data during the study. I used descriptive statistics, the Shapiro-Wilk test, Levene's test, the one-way ANOVA, and the Mann-Whitney U Test to assess the potential relationship between the leadership style of an executive director and the financial performance of the nonprofit arts organization, including contracts and grants income as well as philanthropic personal gifts. I used the Multifactor Leadership Questionnaire, Form 5X in the electronic format and Return of Organization Exempt from Income Tax (IRS Form 990) to collect data for the analysis.

The MLQ Form 5X is a survey instrument that contains 45 items consisting of nine distinct leadership factors indicating three leadership types: transactional leadership, transformational leadership, and nonleadership (*laissez-faire*). The MLQ 5X is used to measure five behaviors that are characteristic of transformational leadership: idealized attributes, idealized behaviors, inspirational motivation, individual consideration, and intellectual stimulation. Two behaviors are characteristic of transactional leadership: contingent reward and management-by-exception-active. Management-by-exception-passive and *laissez-faire* behaviors make up the third scale, which is described as

nonleadership. The inclusion of this third scale allowed the instrument to measure “the full range of leadership” (Yukl, 2012, p. 241).

The archival information for each organization was the fiscal performance information consisting of total revenues and total expenses from the Form 990 as well as contracts and grants revenue received and personal gifts. The population for the study was A51 art museums, A6B singing choral, A60 performing arts, A63 ballet, A65 theater, A69 symphonic orchestra, A56 natural history/natural science museums, A62 dance, A6A opera, and A6C bands and ensembles nonprofits listed in Guide Star Incorporated’s database. Organizations that submitted a 2013 IRS Form 990 served as the population for the study. Small, medium, and large nonprofit arts organizations were included in the population to constitute a representative sample. The study was conducted to answer my research questions and test the following hypotheses.

Research Questions and Hypothesis

Research Question 1: To what extent does financial performance differ across leadership styles of executive directors in nonprofit arts organizations after controlling for organizational size as measured by number of employees?

IH₀: There is no difference in financial performance based on leadership style.

IH₁: Financial performance is significantly higher for leaders with transformational leadership style when compared to other styles.

Research Question 2: To what extent does contract and grants income received differ across leadership styles of executive directors in nonprofit arts organizations after controlling for organizational size as measured by number of employees?

$2H_0$: There is no difference in contracts and grants income received based on leadership style.

$2H_1$: Contracts and grants income received is significantly higher for leaders with transformational leadership style when compared to other styles.

Research Question 3: To what extent do philanthropic personal gifts received differ across leadership styles of executive directors in nonprofit arts organizations after controlling for organizational size as measured by number of employees?

$3H_0$: There is no difference in philanthropic personal gifts received based on leadership style.

$3H_1$: Philanthropic personal gifts received are significantly higher for leaders with transformational leadership style when compared to other styles.

Purpose of the Study

The purpose of this quantitative study was to determine the relationship between the leadership style used by executive directors of nonprofit arts organizations and the financial performance of the organization. I determined what percentages of three leadership styles are used by executive directors in the tri-state area of Dayton, Ohio. I tested the hypothesis that there is a relationship between leadership style of the executive director and financial performance of the organization. I determined the underlying type of leadership style used by executive directors and examined the corresponding financial performance of the organization. For this study, financial performance was calculated as total revenue divided by total expenses of the nonprofit organization. I also examined the leadership style used by nonprofit arts organization executive directors and conducted

statistical tests to determine whether evidence exists to support that one style more positively influences financial performance. Leadership style was the independent variable, and financial performance was the dependent variable.

The identification of a relationship between leadership style and financial performance was important in promoting growth, competitiveness, and sustainability of nonprofit arts organizations. The relationship between leadership style and financial performance may enhance a nonprofit arts organization's ability to accomplish its mission and organizational goals by providing empirical evidence of the influence of leadership on financial performance and other resource decisions. Information gained from this study may help nonprofit boards of directors seeking an executive director with the necessary skills and mind-set desired.

Theoretical Basis for the Study

I used the transformational theory of leadership to frame the study. Transformational leadership was developed to address the divide between how a leader manages day-to-day operations and how to achieve future goals and operational performance of the organization. Though Downton (1973) first used the term *transformational leadership*, Burns (1978) and later Bass (1985) developed the transformational model of leadership. Some scholars contend that if transactional leadership was expanded, the result would be transformational leadership (Bass, 2006). Although the foundation of both models is the relationship between directors and team members, transformational leadership includes the notion of inspiration, motivation, and

mentorship (Bass, 2006). The refinement in the conceptualization of transformational leadership can be seen by exploring the work of both Burns and Bass.

Burns's (1978) transformational leadership theory focused on how the leader transforms the organization by developing morale, motivation, and performance of the organization. Burns's early study took place in the field of political management and administration. Burns stated that politicians lead by "exchanging one thing for another: jobs for votes, or subsidies for campaign contributions" (p. 4). Although this may be seen as a form of motivation, these actions were still closely rooted in transactional leadership. The results of these actions were based on some type of financial reward based on performance or the lack thereof. Burns's conceptualization of transformational leadership elevated these basic transactions by adding several new characteristics including inspiration, shared vision, innovative problem-solving, and developing followers' sense of self and importance to the organization. According to Burns, the mechanism responsible for holding leaders and followers accountable to one another was transformational leadership. The sense of purpose derived from this type of symbiotic relationship creates change within the organization and motivates people to take action, resulting in the empowerment of both the leaders and the followers.

Bass's (1985) transformational leadership theory enhanced Burns' concepts by describing how to measure transformational leadership and its significance within an organization. The higher the proficiency of transformational leadership skills an executive director brings the nonprofit organization, the greater the positive relationship may be on financial performance. The behaviors such as persuasion demonstrated by

transformational leaders (Dym, 2006, p. 42) may affect the actions of organization and financial performance. Bass (1985) suggested transformational leaders encourage organization members to challenge the status quo and to alter the environment which may lead to more successful financial performance. Transformational leadership moves an organization from making a sale at any cost and focusing primarily on the bottom line, to creating lasting relationships and realizing a sustainable vision that contributes to the welfare of the whole organization, which includes financial performance (Bass).

A main difference between Burns and Bass is that Bass (1985) did not contend that transformational leadership is an all-or-nothing endeavor in that one is either a transactional leader or a transformational leader; rather, Bass argued that a leader can use both styles at the same time to be the best leader. Transformational leadership enhances the strengths of transactional leadership, but it does not take the place of transactional leadership (Bass & Riggio, 2006). Bass asserted that when these two styles are used in concert, the resulting leadership style inspires followers by challenging and persuading them, by providing meaning and understanding about why the follower performs, and by giving insight into the intrinsic and extrinsic value of the work performed.

Operational Definition of Terms

Charismatic leaders: Leaders who engage with others to create and foster a work environment characterized by individuals who are emotionally and intellectually committed to organizational goals (Haney & Sirbasku, 2010).

Charismatic leadership: A subset of transformational leadership characterized by the leader's desire to encourage and inspire others by exuding confidence and enthusiasm

to “influence people to collectively accomplish great things that initially seemed impossible” (Yukl, 2012, p. 227).

Executive director (ED): The senior paid or unpaid staff person who acts as the custodian of the nonprofit organization’s mission and operations by acting as a “visionary, change agent, relationship builder, community creator, and resource wizard” (Carlson & Donohoe, 2010, p. 4).

Financial performance: The formula for measuring the raw score for financial performance is total revenue divided by total expenses (Ritchie & Kolodinsky, 2003).

Leadership: The process of “influencing others to understand and agree about what needs to be done and how to do it, and the process of facilitating individual and collective efforts to accomplish shared objectives” (Yukl, 2012, p. 8).

Leadership style: The individual approach used to allocate resources, inspire action, and motivate people based on personal beliefs, values, preferences, and organizational culture (Bass, 1985).

Multi-Factor Leadership Questionnaire (MLQ): A survey instrument used to measure leadership styles and behaviors including transformational, transactional, and passive/avoidant as well as outcomes of leadership (Mind Garden, 2015).

Servant leadership: Leadership characterized by the leader’s willingness to serve others and act as the steward of an organization’s resources while nurturing and supporting others development (Perry, 2010).

Transactional leadership: Leadership that emphasizes the social exchange “that takes place among leaders, colleagues, and followers” (Bass & Riggio, 2006, p. 4) based

on the expression and fulfillment of requirements whose completion or lack of completion results in the receiving or denying of awards or other monetary compensation.

Transformational leadership: Leadership that stimulates and inspires others to “commit to a shared vision and goals for an organization or unit, challenging them to be innovative problem solvers” (Bass & Riggio, 2006, p. 4) through positive encouragement and support.

Assumptions, Limitations, Scope, and Delimitations

Assumptions

This study was based on the following assumptions. The questions chosen were relevant and appropriate in assessing the surveyed nonprofit executive directors' leadership style financial performance. The executive directors would be self-reporting their responses, which would lead to two assumptions. First, surveyed nonprofit executive directors fully understood all items in the questionnaire. Second, surveyed executive directors, to their best knowledge, responded honestly to the questionnaire. I also assumed that the response rate would reach a fair percentage to ensure the precision of population estimates to obtain similar results with repeated measures. In addition, I assumed the quantitative approach would yield insights regarding the relationship between leadership style and financial performance of the organization. Lastly, I assumed the data collected would allow me to answer the research questions.

Limitations

This study was limited by the potentially nonrepresentative sample of nonprofit arts organizations in the metropolitan area. Another limitation was the difficulty identifying the type of leadership style used by an ED because of a blended style being used. The questionnaire used to measure leadership style may not have captured the hidden characteristics of leadership style such as values, self-image, traits, and motives.

Scope and Delimitations

This study focused on the leadership style used by executive directors of nonprofit arts organizations within the nonprofit sector. I included nonprofit executive directors of arts organizations in the Dayton-Cincinnati, Ohio metropolitan area that reported more than \$50,000 total revenue. Due to the large number of nonprofit arts organizations in the United States, I chose the sample of nonprofit arts organizations within the Dayton-Cincinnati, Ohio metropolitan area due to proximity to the researcher. I used a questionnaire to assess the leadership style and the Internal Revenue Form 990 to identify financial performance of the organization. The sample size was restricted to organizations that had more than 10 employees. There were no further restrictions on the sample in the interest of assessing the significance of the leadership style related to the financial performance of the organization. Financial performance income streams were restricted to contracts, grants, and personal philanthropic gifts. Income earned from sales of goods or merchandise, services rendered, or work performed as well as income derived from a taxable for-profit subsidiary was not included because these types of income were not as relationship oriented or influenced by leadership style.

Significance of the Study

The purpose of my study was to determine whether a difference exists between the leadership style of executive directors of nonprofit arts organizations and the financial performance of the organizations in the Dayton metropolitan area. In addition, I analyzed how social capital was used by transformational leaders and its effect on financial performance. This study may contribute to the knowledge of leadership styles in nonprofit organizations. This study may influence researchers, academicians, public policy practitioners, and leaders and followers within nonprofit organizations in the following ways:

1. contribute empirical data on the relationship between nonprofit leadership styles of executive directors and the organization's financial performance;
2. contribute support for using quantifiable measures to establish the relationship between leadership style and the amount of revenue received by nonprofit arts organizations;
3. assist scholars in adding content to nonprofit curricula in the areas of fund-raising, finance, and leadership;

As the competition for financial resources increases, nonprofit arts organizations have to find creative ways to continue the services that many communities expect (Prentice, 2015). In addition, the competition to find and retain leaders who are able to strategically guide the organization in terms of programming, strategic management, and financial performance may be increasingly difficult. The current situation involving fewer resources but more services and leaders needed supports a study such as this. The

ability to address a gap in understanding leadership and financial performance may be valuable to nonprofit arts organizations.

Results of the study may assist nonprofit arts organizations in improving their financial performance by helping them attract and hire leaders who have the leadership style that is needed to enhance financial performance. This would greatly assist these organizations by allowing them to identify an additional tool that may keep them financially solvent so they can further benefit the community. By having a better understanding of the relationship between leadership style and the financial performance of nonprofit arts organizations, individuals seeking a career in these organizations may be better prepared to lead and manage organizations and ensure that their missions are met.

Summary

With the continued need for nonprofit arts organizations to do more with less, it is increasingly important for executive directors to use all characteristics including leadership style to ensure continued financial performance to operate the organization. A study was needed to evaluate the relationship between executive director leadership styles and financial performance. In Chapter 1, I introduced the research and background of the study, the purpose of the study, and research questions and hypotheses. Chapter 2 provides a comprehensive literature review on leadership within nonprofit organizations. In synthesizing peer-reviewed journal articles, I summarize, compare, and contrast various points of view and research outcomes on the topic of nonprofit leadership. The literature review also contains historical information describing the impetus of transformational leadership.

Chapter 2: Literature Review

One of the main focuses of nonprofit leadership is funding, but how the leadership style used by executive directors relates to funding is in its infancy when compared to the private sector. The purpose of this quantitative study was to examine the relationship between the leadership style used by executive directors of nonprofits arts organizations within the Dayton, Ohio tri-state area and the financial performance of the organization. Chapter 2 addresses contemporary leadership theory within nonprofit organizations in the following sections: definition of leadership, nonprofit leadership, and the role of the executive director. I also review the evolution of transformational leadership styles in the following sections: theory, leadership style, and development. Other sections in Chapter 2 include measuring leadership style of nonprofit executive directors, correlating the executive director leadership style with organizational funding, a conclusion, and a summary.

The literature review included a comprehensive search within the Walden University Library research databases including ProQuest and EBSCOhost. Key words searched in the review were *nonprofit leadership*, *transactional leadership*, *transformational leadership*, *leadership surveys*, *charismatic leadership*, *leadership theories*, *leadership style*, *nonprofit funding*, and *multifactor leadership questionnaire*. The review of reference sections from various articles, dissertations, and theses led to the examination of additional articles. Mind Garden and Giving USA and other relevant organizational websites were also examined.

Nonprofit Leadership

Defining and assessing leadership styles within nonprofit arts organizations is not a simple endeavor. Effective leadership is becoming more critical during times of dwindling budgets and increased economic instability. As the number of nonprofits continues to soar, the numbers of successful, sustainable nonprofit organizations are influenced by the economic environment and organizational leadership. The TCC Group (2014) posited that sustainable nonprofit organizations are led by individuals who are idealistic, diplomatic, positive, determined, and enlightened and who can achieve organizational goals. Leadership may be the single most important ingredient to keep nonprofit organizations afloat during challenging economic times (TCC Group, 2014). As the economic, political, and social facets of the nonprofit environment converge, leadership will need to reinvent itself for organizations to remain viable and effect social change. Organizations that are doing well and those that want to continue doing well are coming to the realization that developing leaders is an integral part of operations as well as accomplishing and maintaining organizational missions (Watson & Hoefler, 2013).

Nonprofit arts organizations greatly differ from for-profit organizations. Due to the distinct nature and missions of nonprofit organizations, many nonprofit organizations do not conform to traditional business models and business procedures that underlie for-profit organizations. Many tenets of financial statement analysis are not applicable for nonprofit organizations because nonprofits focus on the mission and use different accounting procedures than for-profit organizations (Prentice, 2015). Many outside forces such as reductions in federal funding, reduction of private donations, increased

governmental regulations on available funding, and drops in attendance, which have caused organizations to cut back on hours of operations, are causing nonprofit arts organizations to rethink programming due to limited resources. Due to these circumstances, some organizations are finding themselves in tenuous and unstable positions.

The different structures and organizational models that support nonprofit missions may cause nonprofit arts organizations to inherently incur a liability when compared to for-profit organizations. Nonprofit organizations are established to deliver a multitude of services or provide assistance within local communities throughout the United States (Vaughan & Arsneault, 2013). The analysis and measurement of organizational success focuses primarily on whether the nonprofit has achieved its mission. These types of nonfinancial outcomes are difficult to measure and may be less precise than traditional measures such as net income. This nuance makes it difficult for nonprofit arts organizations to evaluate financial performance (Larkin, 2013). Without the receipt, proper management, and utilization of financial resources, the nonprofit organization cannot conduct its mission.

Nonprofit arts organizations must be diligent in hiring executive directors who understand the importance of financial management and fund-raising (Bell & Johnson, 2010). It may be advantageous for nonprofits to select leaders who comprehend the basics of financial and economic analysis in relation to success of the organization. An organization that uses this strategy, along with financial transparency, financial

accountability, and situational awareness, may find itself in a better position than one that does not recognize these strengths.

Nonprofit arts organizations, which include art museums and galleries, theaters and performing arts, operas, orchestras, and ballet companies, face many financial obstacles. A critical instance found in nonprofits that is not found in for-profit organizations is the use of volunteers filling critical roles in the organization, including managerial, advisory, clerical, and direct labor (Rogelberg et al., 2010). Other contracts or union requirements may stipulate how many musicians must appear on stage during an orchestral performance. Sometimes art galleries reduce potential income by offering free or reduced admission on certain days or to certain groups while other operating expenses continue to increase. These situations make nonprofit art organizations vulnerable to budget deficits.

Theaters also encounter personnel requirements for certain programs as well as a lack of degreed arts administrators (Rhine, 2015). Nonprofit arts organizations are also constrained by the limited number of seats available per venue. Nonprofit arts organizations also encounter cyclical ebbs and flows depending on the nature of the performance, whether it is an opera, ballet, or art showing. Skinner, Ekelund, and Jackson (2009) asserted that attendance at arts events is tied to the economy; when the economy is growing, a larger number of tickets is purchased, and when the economy is contracting, a smaller number of tickets is purchased. These types of issues require a different perspective on the financial and economic stability of a nonprofit arts organization. A leader who uses a charismatic, transformational leadership style may be

able to better assist in the financial management and financial performance of nonprofit arts organizations (Northouse, 2015).

Executive directors within the nonprofit industry may find themselves in a whirlwind of activities, making it hard to complete the daily activities while paying attention to the needs of every group within the organization. This balancing act includes the wishes of significant donors, the needs of the community, and the activities contained in the mission. The challenges described above indicate the need for an executive director who can function in the unique nonprofit arts setting while accomplishing multiple objectives with limited resources (Taylor et al., 2014). Nonprofit arts organizations may benefit from a transformational leader who can fulfill many requirements, serve as a role model, and positively transform the organization (Taylor et al., 2014).

Definition of Leadership

Many diverse definitions of leadership exist within the many facets of organizations and the individuals placed in leadership roles. Multiple years dedicated to studying leadership have failed to produce a universally accepted definition of leadership or method for, how best to measure it. Burns (1978) asserted that the concept of leadership is made up of distinct meanings, with more than 130 different definitions. Though the literature indicates much uncertainty about the definition of leadership, the importance of leadership within nonprofit organizations is growing. The increase in the number of nonprofit organizations and the need for leaders to lead them has resulted in the growing field of study in nonprofit leadership.

Common themes that recur throughout the many definitions are those of exerting influence, motivating, inspiring, leading by example, making a difference, and helping others. Yukl (2012) defined leadership as the methodology of influencing others to comprehend and concur about what needs to be carried out and how to do it, and the procedure of encouraging individuals and groups to achieve goals. This definition affirms that leadership endeavors to influence and encourage the current work of the organization, while guaranteeing that the organization is prepared to meet future difficulties. Northouse (2015) defined leadership as a procedure in which an individual influences people to attain a common objective. These two definitions combine the ideas that leadership is made up of common goals as well as being a methodical procedure. Denhardt, Denhardt, and Aristigueta (2015) defined leadership as a procedure by which one individual influences others to seek a common goal.

Van Velsor, McCauley, and Ruberman (2010) defined leadership as the roles and processes that encourage setting courses, making arrangements, and fulfilling duties in groups of individuals who share common activities. This definition also supports the assertion that leadership is not produced by a person but rather created by people as a process. Burns (1978) defined leadership as the complementary methodology of assembling persons with specific thought processes and qualities, including different monetary, political, and other assets, in an environment of rivalry and discord to acknowledge objectives freely or commonly held by both leaders and followers.

For this study, Yukl's (2012) definition of leadership was used because it concentrates on leadership as a procedure and focuses on critical processes for a leader to

satisfy his or her obligations including helping others comprehend and agree on common objectives to achieve organizational and individual targets.

Nonprofit Leadership

The goal of nonprofit leadership differs from the goal of for-profit leadership. The goal of for-profit leadership is to affect positive financial success as evidenced in the bottom line. Although the bottom line is important to nonprofit leaders, nonprofit leadership also takes into account accomplishing the mission (Yukl, 2012). The reason a nonprofit organization is established and continues its operations is to advance the mission of the organization. Meeting and accomplishing the organizational goals is critical to the continued existence of a nonprofit agency. The mission can be thought of as the driving force of the organization (Wolf, 2012). In the business world, the measurement of profit or the increase in profit from year to year is easily quantified and is the primary goal of a for-profit organization. A significant increase in assets or cash flow or lack of a deficit allows a for-profit organization to attract and retain talented individuals and groom them for leadership roles. Nonprofit organizations do not have this luxury and must attract and retain talent based on the strength of and support for the organization's mission. The lack of financial incentives forces the nonprofit leader to seek out, connect, and leverage other resources to attract and retain talented individuals to be responsible for the nonprofit's operations (Hackman & Johnson, 2013).

Though nonprofit leaders are sometimes lacking in formal instruction and administration ability, they compensate for it in excitement, vitality, and, imagination (Watson & Hoefler, 2013). They hit the ground running and learn rapidly in light of the

fact that they should. They assemble their teams as they forge ahead. They enhance their skills to take care of issues experienced along the way. Due to this learning curve, nonprofit leaders deserve a place in the history of enterprising U.S. ingenuity even though some nonprofit organization may only be keeping their heads above water (Nonprofit Finance Fund, 2015).

Over the last decade, an inverse relationship between funding for nonprofits and the need for skilled nonprofit leaders has emerged. Because fewer dollars may be available, executive directors, board members, and other leaders within nonprofit arts organizations must spend more time fund-raising. Brinckerhoff (2009) contended that nonprofit executives have a more noteworthy influence on the prosperity of the association than their revenue-driven partners do. Another inherent difference that is found in nonprofit organizations is that they do not follow or maintain traditional models for business management and financial reporting used in for-profit organizations (Vaughan & Arsneault, 2013). This change in focus and leadership style supports the notion that effective nonprofit leadership does not occur in a vacuum and occurs at the right time, at the right place, and to the extent necessary to propel the organization to meet its mission and financial goals. A skilled and supportive leader whose presence positively transforms a nonprofit organization may be able to influence organizational outcomes within the nonprofit environment (Freeborough & Patterson, 2015).

Role of the Executive Director

The executive director operates in the formal leadership role for the nonprofit organization (Watson & Hoefler, 2013). Effective nonprofit leaders demonstrate the

ability to listen and see, to use their mastery as the impetus to initiate and encourage dialogue, and to build the capacity to generate processes that result in transparency between all levels of decision-making. Leaders establish coherent agendas and goals, identify problems, and initiate positive change that results in substantial improvement in the organizations they serve (Yukl, 2012). These leaders possess the ability to motivate and persuade others to support the organization's mission. They objectively measure results and are prepared to adjust goals and processes to improve results (Wolf, 2012). These unique functions of nonprofit leadership merit additional study and research because studies concentrating on the philanthropic official executive leadership style are limited to organizational effectiveness.

As the individual accountable for the operations of a nonprofit arts organization, the director has numerous obligations. Leaders are tasked with creating and authorizing the vision of the association, enlisting and directing office staff, maintaining a beneficial relationship with the board of directors, generating a measurable fund-raising plan that will guarantee supportability, and overseeing the responsibilities of finance and accounting for the organization (Kinicki & Kreitner, 2011). In addition, the executive director spearheads both short-term and long-term planning while generating the mission and vision that will carry the organization into the future. Organizations create a strategic plan to assist the executive director in the fulfillment of these goals and activities (Wolf, 2012).

Transformational Leadership

The definition of leadership is fleeting within both for-profit and nonprofit organizations. Defining and understanding transformational leadership, which includes the charismatic style, is a component of assessing leadership within and funding received by nonprofit organizations. Transformational leadership can be thought of as a leadership style based upon the leader's determination to transform both individuals within the organization as well as the organization itself by providing opportunities to affect change (Bass & Riggio, 2006) A transformational leader often holds an all-encompassing desire to attain both individual and organizational fulfillment of goals (Bass & Avolio, 1993).

Transformational leadership theory has been largely influenced by the work of James McGregor Burns (1978), who authored a best-selling book on political leadership, "Leadership" and the research done by Bernard M. Bass (1985, 1996). The origins of interest in transformational leadership stemmed from the interest in charismatic leadership. According to Avolio (2010) charismatic leaders are "those who could energize followers through their use of symbols, images, stories, and rhetoric to perform at extraordinary levels" (p .4). They typically had a vision for a better future, and were willing to sacrifice everything to show to their followers how committed they were to achieving the vision. Burns incorporated a moral element into leadership that was missing from charismatic leadership. According to Burns, transformational leaders are charismatic, inspiring, morally uplifting, and most importantly worked to develop followers into leaders themselves. Avolio (2010) reinforced this point. He stated the

main difference between charismatic and transformational leaders is that there could be positive charismatic leaders and negative charismatic leaders, whereas with transformational leaders are assumed to have a positive moral compass and are interested in the development of their followers into leaders. Transformational leaders “can produce significant organizational change and results because this form of leadership fosters higher levels of intrinsic motivation, trust, commitment, and loyalty from followers” (Antonakis & House, 2007, in Kinicki & Kreitner, 2011, p. 358).

An essential prerequisite to transformational leadership is transactional leadership. Transactional leadership stands in contrast to transformational leadership. According to Avolio and Yammarino (2002) transactional leadership “focuses on clarifying employees’ role and task requirements and providing followers with positive and negative rewards contingent on performance” (in Kinicki & Kreitner, 2011, p. 358).

Bass and Avolio (2003) argued that transformational leadership is the highest level of leadership that an individual can pursue. Transformational leadership is important because of the follower outcomes that are produced if it is implemented effectively. These outcomes include trust towards the leader, admiration, loyalty, and respect (Bass & Riggio, 2006). These outcomes are important because they help leaders lead, and ultimately accomplish goals. When a leader has the trust admiration, loyalty, and respect, of the follower, then the chances of followers accepting and committing to the goals of the leader are very high, therefore leaders would benefit from the results of transformational leadership (Bass & Avolio, 1993). Components of this theory have been

widely researched for the last decade, and there is overall support of the theory (e.g., Yukl, 2012).

Transactional Leadership

Originally Burns (1978) asserted that transactional leadership and transformational leadership, though diametrically opposed, were part of a single leadership theory and could be measured on one scale. It was not until Bass's work (1985) where he postulated that both transactional leadership and transformational leadership should be separated into two discrete leadership styles. Bass (1985) asserted that an effective leader could possess and use changing levels of each leadership style. The transactional leadership style is based upon contingent reward theory. This means that both rewards (bonuses, awards, pay raises) and punishments (demotion, counseling, pay decreases) from the leader are based upon the performance or lack thereof of the subordinates (Bass, 1985; Howell and Avolio, 1993). This is known as *quid pro quo* or simply an exchange between the leader and the subordinate based upon the premise you give me something for something in return (Bass, 1985). The transformational leadership style is based upon three main dimensions: contingent reward, management by exception-active, and management by exception-passive. Contingent reward occurs when transactional leaders specifically establish mutually agreed upon goals with the follower and then tie those goals to rewards (Bass, et al, 2003). Further, the transactional leader provides the resources necessary for successful performance of each individual. The second dimension, active management by exception occurs when the transactional leader closely observes their subordinates work, looks for any divergence from

established rules and standards, and takes remedial action to prevent mistakes (Judge & Piccolo, 2004). Passive management by exception can be thought of as the opposite, reactive version of active management by exception where the transactional leader only takes corrective action when standards are not met or when a mistake has already occurred (Judge & Piccolo, 2004).

Bass and Avolio's work in 1993 asserted that transactional and transformational leadership were related and proposed the augmentation theory. This theory stated that transformational leadership is based upon and adds to the transactional style of leadership (Bass & Avolio, 1993). By examining the two leadership styles in this manner one can see the similarities and differences each style has on the leader and the expected behavior of the subordinate. Through transactional leadership the leader and follower predetermine expectations and goals and agree to the performance level necessary to achieve the goals and earn the agreed upon reward (Bass & Avolio, 1993).

Transformational leadership builds on transactional leadership and takes it a step further. Transformational leadership advocates the development of followers who then perform beyond expectations due to the increased loyalty to the leader and the organizational mission (Howell and Avolio, 1993).

Charismatic Leadership

Charismatic leadership is a term that is sometimes used interchangeably with transformational leadership. Judge and Piccolo (2004) asserted that there is no general agreement upon the exchangeability of charismatic and transformational leadership; yet, many scholars have found little deviation in the two leadership styles. Conger and

Kanungo (1998) noted little difference between these two leadership styles. Though the two forms of leadership may have significant amounts of overlapping similarities, charismatic leadership does have characteristics that separate it from transformational leadership (Rowold and Heinitz, 2007).

Max Weber (1947) originated the study of charismatic leadership where he described how followers perceived that the possession of outstanding skills or exceptional qualities and their influence within the organization was due to the existence of their leader (Barbuto, 2005; Yukl, 1999). House's theory (1977) of charismatic leadership asserted that the exceptional skills and abilities followers possess are based upon the observation of the behaviors their leaders engage in. House's theory led to multiple studies that defined the main characteristics of charismatic leadership (Judge, et al., 2006). However Conger and Kanungo (1998) identified and developed the most well-known and accepted structure of charismatic leadership that identified the five attributes of a charismatic leader: vision and articulation; sensitivity to the environment; sensitivity to member needs; personal risk taking; and performing unconventional behavior.

Though charismatic leadership and transformational leadership share many similarities there is one main difference between the two leadership styles. Charismatic leadership does not affect organizational change whereas transformational leadership focuses on transforming the organization as a whole as well as the followers. Charismatic leaders focus on improving the status quo while transformational leaders focus on transforming to organization based on his or her vision (Bass & Riggio, 2006).

Yukl (1999) asserted that the definition of charismatic leadership, which includes followers attributing charisma to a leader they identify strongly with, is the “basis for differentiating between transformational and charismatic leadership” (p. 294).

Servant Leadership

Greenleaf’s ground breaking work (1977) on servant leadership expressed that servant leaders climb to a higher plane of inspirational motivation and concentrate on addressing the needs of their followers. Servant leaders immerse themselves in supporting the emotional needs of their followers and strive to develop these individuals as their main goal, not as a by-product of meeting organizational goals (Page and Wong, 2000). Stone, Russell, and Patterson (2004) asserted that the study of servant leadership is still in its beginning stages and that much of the work to date only delineates similarities and differences between servant leadership and other leadership styles. Researchers have attested that the transformational leadership style and servant leadership style share many similarities and have foundational overlaps (Graham, 1991; Liden, Wayne, Zhao & Henderson, 2008). Further servant leadership shares similarities with two of the components of transformational leadership; the individualized consideration and intellectual stimulation (van Dierendonck, 2011). Both servant leadership and transformational leadership underscore and emphasize the qualities of listening, mentoring, teaching and empowering followers (Stone, et al., 2004).

Winston and Fields’ (2015) research identified and validated ten main behaviors practiced by servant leaders that set them apart from transformational leaders (p. 427).

The ten behaviors identified in this study can be further generalized to cover seven

categories of leadership behavior which include, intellectual skills, employee empowerment, growing subordinates, putting subordinates first, ethical behavior, inspirational development, and establishing organizational virtue (Winston & Fields, 2015). Servant leadership and transformational leadership can be differentiated based upon the focus of the leader. Van Dierendock, Stam, Boersma, de Windt, and Alkema (2014) assert that leader's focus in servant leadership is the needs of the follower whereas in transformational leadership, the leader's focus is on organizational effectiveness (p. 544). Taken one step further, the principal loyalty of transformational leader is incontestably the organization rather than follower development. The principal loyalty of a servant leader is the needs of the followers even if those needs conflict with organizational needs or the servant leader's needs (van Dierendock, et al., 2014). In the areas of motive and mission, the servant leader's concentration is similar to focus because the servant leader is motivated by a strong desire to grow the skills and capabilities of the followers whereas the transformational leader is motivated by organizational performance beyond what is necessary (Breevaart, Bakker, Hetland, Demourouti, Olsen, & Espevik, 2014). Servant leaders seek to cultivate and grow followers into independent moral servants (Greenleaf, 1977) whereas transformational leaders seek to cultivate and grow followers into future leaders (Bass, 1985). The servant leader influences followers through service and transformation leaders influence the followers through charisma (Stone, et al., 2004).

Measuring Leadership Style of the Executive Director

The measurement of leadership style within the nonprofit organization is critical to evaluating the effectiveness of the executive director's ability to secure funding and donations. Many studies have shown and supported a well-established relationship between transformational leadership and organizational performance. The work of Howell and Frost (1989) studied how transformational leadership allows a leader to use these leadership style characteristics to coach, mentor, and empower those within the organization to become problem solvers and increase organizational productivity. Organizational productivity and success includes financial performance and financial success. Later work by Howell and Avolio (1993) determined that indicators of transformational leadership style markedly affected and categorically forecasted organizational performance. These studies were performed in various business settings and the findings also support the use and success of the transformational leadership style is used by executive directors within nonprofit organizations.

Leadership Characteristics of an Executive Director

The differences of attributes affecting nonprofit leaders' executive leadership style are difficult to ascertain, yet researchers have created some basic thoughts on the matter. Some of the normal elements influencing not-for-profit chief official authority result from former exposure. First, the location of past experience may be a basis creating leadership style. Business leaders who traverse into the philanthropic sector are perceived to have for a more elevated amount of professionalism and financial management knowledge than executives from inside the nonprofit division (Bromley &

Meyer, 2014). The imported leaders must excel and address the needs of a not-for-profit while keeping in mind the organizational goals to exhibit successful authority.

Sometimes, business executives come to nonprofits with distinctive capabilities and talking an alternate dialect than their philanthropic partners. A business leader can only succeed in transitioning from the for-profit world to the not for-profit world if the nonprofit is ready for organizational change (Crawford, 2010).

Second, the incumbent's previous position, and whether the change in employment was the result of a promotion or a lateral career move, affects executive director's situational comfort level and therefore leadership style (La Belle, 2010). This also includes changes in organizational or environmental culture. Lastly, employment duration directly affects executive director leadership style. Researchers assert that a director's leadership style evolves over time through the infancy of an employment opportunity to mature leadership that occurs toward the end of the executive director's tenure (Froelich, McKee, & Rathge, 2011).

Other basic elements that effect not-for-profit official's administration of leadership emanate from the arts organization's condition. The condition of the association (from number of employees to income) relates to a leader's leadership style, particularly within their initial couple of years in organization (La Belle, 2010).

Nonprofit arts organizations, in the same way as any organization, have a life cycle of progression and the position of an arts organization in its life cycle can likewise affect leadership. Brothers and Sherman (2011) asserted that nonprofit organizations have a

five stage life cycle: start-up, growth, maturity, decline, turnaround. Distinct leadership styles are required during the various stages of the life cycle (La Belle, 2010).

Leadership Evaluation Tools

Various evaluation tools and instruments have been developed to assess the transformational leadership framework. The most well-known and popular measurement tool is The Multifactor Leadership Questionnaire (MLQ) Form 5X (Schriesheim, Wu, & Scandura, 2009). Table 1 identifies the 4 I's of transformational leadership that define transformational leadership within the MLQ Form 5X. Bass' original study (1985) identified three components of transformational leadership: charismatic leadership, individualized consideration, and intellectual stimulation. The work done by Avolio, Waldman, and Yammarino (1991) added the last component, inspiration motivation. This research also additionally changed charismatic leadership to idealized influence resulting in the 4 I's of transformational leadership. The idealized influence component is sub-divided into the characteristics of idealized attributes and idealized behaviors.

Table 1

The Four I's of Transformational Leadership

Behavior	Definition
Idealized Influence	The leader put followers needs ahead of his/her own and is admired, respected, and trusted.
Inspirational Motivation	The leader motivates followers by establishing a vision of the future and building team spirit.
Intellectual Stimulation	The leader stimulates followers to challenge the status quo and be innovative
Individualized Consideration	The leader recognizes the individual needs of the follower and develops the follower for increased challenges

Note. Bass, B. M., Avolio, B. J., Jung, D. I., & Berson, Y. (2003). Predicting unit performance by assessing transformational and transactional leadership, *Journal of Applied Psychology*, 88(2), 207-218.

The most current version of MLQ Form 5X measures three main subsets of leadership: transformational leadership (idealized attributes and behaviors, inspirational motivation, intellectual stimulation, individualized consideration), transactional leadership (contingent reward, management by exception), and passive/avoidant leadership (management by exception-passive, laissez-faire) (Mind Garden, 2015) The instrument consists of 45 questions which can be answered within 15 – 20 minutes.

Kouzes and Posner (1988) created and authenticated the Leadership Practices Inventory (LPI), which is another popular measurement. The LPI is based on and measures the Five Practices of Exemplary Leadership which are: modeling the way, inspiring a shared vision, challenging the process, enabling others to act, and encouraging the heart (LPI Online, 2015). Respondents are asked a total of 30 questions related to transformational leadership and take approximately 10 – 15 minutes to complete. The

LPI instrument is based upon a 10 point frequency scale whereas the MLQ is based upon a 5 point scale.

Further research was done by Conger and Kanungo (1994) who created a survey to measure charismatic leadership. Charismatic leadership is a subset of transformational leadership. Both the transformational and charismatic leadership styles assert that charisma is a necessary characteristic for effective leadership (Northouse, 2015). The Conger and Kanungo scale recognizes and evaluates six characteristics of charismatic leadership that are very similar to transformational leadership: vision and articulation of the vision, sensitivity to the environment, unconventional behavior, personal risk, sensitivity to organizational members' needs, and action orientation away from the status quo. Conger and Kanungo's research revealed that these characteristics are strongly correlated with charismatic leadership style.

In 2000, Carless, Wearing, and Mann generated a short instrument to measure transformational leadership. The Global Transformational Leadership (GTL) defines seven leadership characteristics: communicating a vision, developing staff, providing support, empowering staff, innovating, leading by example, and possessing charisma. This was a sizeable study that collected leadership data on 695 division managers from 66 district managers and another 1,400 employees. The study results showed that the GTL scale was highly reliable with respect to construct validity. In addition, this research by Carless et al., (2000) also found a strong correlation between the other instruments (the MLQ, LPI, and GTL). Due to the demonstrated reliability and validity within the leadership community, the MLQ Form 5X will be used in this dissertation.

Correlating Nonprofit Executive Director Leadership Style and Funding

Nonprofit executive directors are responsible for the success or failure of the organization which includes organizational funding and financial performance (Watson & Hoefler, 2013). Historically, research has focused on the leadership and guidance given to nonprofit organizations by the board of directors. According to Carlson and Donohoe (2010), while the relationship between the board of directors and the executive director can be seen as a partnership, the executive director is, “ultimately responsible for the oversight and overall accountability of the organization” (p. 233). They recognized that this goes against the customary organizational framework models that place the power and authority with the top managerial staff. Further, they asserted that powerful CEOs will direct the board by utilizing a board-focused administration style that will guarantee the board acknowledges and performs their association and guardianship roles (Carlson & Donohoe, 2010).

Financial Indicators

Over the past 20 years several studies have investigated whether there is a correlation between nonprofit leadership style and organizational performance. In 2001, Green, Madjidi, Dudley, and Gehlen conducted such a study. These studies showed that the organizational performance, which would include financial performance, were affected by leadership style, specifically transformational leadership (Green, Madjidi, Dudley & Gehlen, 2001; Pawar, 2003; Eagly, Johannesen-Schmidt & Van Engen, 2004; Judge & Piccolo, 2004; Krishnan, 2004). These are the first instances of a study focusing on the executive director instead of collectively on the whole board of directors. Further

the Green, Madjidi, Dudley, and Gehlen study was instrumental in focusing on the organizational subset of financial performance by utilizing data extracted from IRS Form 990. Their research supports the assertion that external financial reporting measures are correlated to self-reported leadership style effectiveness of the executive director (Green et al., 2001).

Financial indicators for nonprofit organizational performance (Brown, 2005; Ritchie & Kolodinsky, 2003; Vaughan & Arsneault, 2013) can be measured and correlated to the leadership style of the executive director (Avolio, Bass, & Jung, 1999; Bass, 1985; Burns, 1978). Brown, Ritchie, and Kolodinsky used financial related information as intermediary point for nonprofit organizational and financial execution. Ritchie and Kolodinsky's study used the IRS Form 990 to investigate the potential for utilization of financial execution measures to assess not-for-profit organizational execution. The researchers accepted that key proportions, when accessible, could measure execution over the long haul or with comparable organizations and permit the basis of financial viability criteria to be established (Ritchie & Kolodinsky, 2003; Vaughan & Arsneault, 2013). Financial ratios can be created to assess nonprofit organizational performance within major categories based upon the mission of the organization. In addition, this study explored relevant literature to derive commonly used ratios that measure organization and financial performance. Ritchie and Kolodinsky's research provides the basis for financial indicators used to assess executive director leadership style to financial performance which is critical to this study. Ritchie and Kolodinsky reported the use of three financial performance measurement ratios in three

performance-related categories: fund-raising efficiency, fiscal performance, and public support which includes grants and contracts as well as personal philanthropic gifts, that nonprofit could use to measure financial performance. Table 2 summarizes these ratios and the associated lines on IRS Form 990 where the information is taken from.

Table 2

Financial Ratio Category and IRS Form 990

Ratio	Definition
Fiscal Performance	Total revenue plus Reserves divided by total expenses ((line 12+line 22) ÷ line 17)
Fund-raising Efficiency	Fund-raising expenses divided by total Contribution (gifts, grants, and other contributions) (line 44D ÷ line 1E)
Public Support	Total contributions (gifts, grants, and other contributions) divided by total revenue (line 1E ÷ line 12)

Note. From Ritchie, W.J., & Kolodinsky, R.W. (2003). Nonprofit organization financial performance measurement: An evaluation of new and existing financial performance measures, *Nonprofit Management & Leadership*, 13, 371.

Ratio Analysis

The success of nonprofit organizations can be measured with a two pronged approach: fulfillment of the organizational mission and financial success. Although nonprofit organizations are not focused on profit, the financial stability of the nonprofit is tied to whether or not the organization will have enough resources availed to successfully complete the mission and positively affect the community where it is located (Prentice, 2015). Many of the key performance indicators (KPIs) for nonprofit organizations are benchmarks and financial ratios the measure both the financial strength and growth of the nonprofit. One measurement to analyze financial performance, as previously defined, is

total revenue / total expenses (IRS Form 990 Line 12 / line 18) which is the dependent variable for this study.

Many scholars are familiar with the standard financial ratios used by for-profit organizations to measure liquidity such as the current ratio or debt ratio. These same ratios can be used within nonprofit organizations to gain a better understanding of the nonprofit's financial condition (Prentice, 2015). The current ratio is calculated as current assets/current liabilities. This ratio represents whether or not the organization can pay its obligations in a timely manner within the next 12 months (Prentice, 2015). The debt ratio is calculated as total liabilities/ total unrestricted net assets. This ratio shows how much outside funding such as loans and payables the nonprofit is relying on to keep operations going (Prentice, 2015).

Three lesser-known ratios that may be more applicable to nonprofits are the program efficiency ratio, the operating reliance ratio, and the fund-raising efficiency ratio. The program efficiency ratio measures organizational spending for prime services or prime mission compared to organizational administrative costs (Bierman, 2014). This ratio is calculated as program service expenses / total expenses (IRS Form Part IX Line 25b/ IRS Form Part IX Line 25a). The operating reliance ratio determines whether the nonprofit organization is able to pay all expenses from program revenues alone (Bierman, 2014). It is calculated as unrestricted program revenue / by total expenses (From audited financial statements /Line 18). Lastly, the fund-raising efficiency ratio lets the nonprofit organization determine how efficiently it is raising money by showing how many dollars the nonprofit is collecting compared to each dollar of fund-raising expense (Bierman,

2014). This ratio is calculated as unrestricted fund-raising expenses / unrestricted contributions (IRS Form 990 Line 16b/Line 8). These ratios should be calculated and compared to prior historical points in time within the organization itself as well as compared to similar organizations over the same period of time.

Summary and Conclusions

Transformational leadership may be the basis for executive directors succeeding at balancing organizational means as well as financial performance. Nonprofit arts organizations may also benefit from the leadership of an executive director that uses the transformational leadership style (Hu, Kapuco, & O'Byrne, 2014). A transformational leader may be able to garner public support from the community that positively benefits the organization. These benefits include financial performance through increased donations (Vessey, Barrett, Mumford, Johnson, & Litwiller, 2014).

The literature has shown that the research done on transformational leadership as it applies to nonprofit organizations focuses on theory and organizational health. The literature also shows that much research has been done on determining financial performance of nonprofit organizations. There is a gap in the literature surrounding whether using a particular leadership style affects financial performance of nonprofit arts organizations. This study intends to show that a correlation may exist between nonprofit arts organizations whose executive directors use the charismatic transformational leadership style and an increase in financial performance, contract and grants revenue received and personal philanthropic gifts received. Although nonprofits intrinsically function differently than for-profit organizations and may face different challenges, they

may still benefit from a leader that uses the transformational style of leadership.

Embracing the transformational leadership style may allow the executive director to fully develop a well-functioning, synergistic organization that results in increased community and financial support.

Chapter 2 reviewed the relevant literature in the areas of nonprofit leadership. Transformational, transactional, and servant leadership theorists delineate the positive effects each style has on organizational effectiveness. Research done on transformational leadership currently focuses on identifying characteristics of the leader and the correlation to organizational performance. Organizational outcomes are supported by transformational leadership constructs and the measurement of leadership style by using the Multifactor Leadership Questionnaire (MLQ-5X) to determine leadership style. More research on leadership in the nonprofit sector needs to be done in order to complement or contrast the research on leadership in the for-profit sector. Research in the corporate setting supports the assertion that there is a correlation between CEO leadership style and organizational performance.

Chapter 2 discussed the current state of nonprofit leadership, theory behind transformational leadership, measuring the leadership style of the executive director, and correlating nonprofit leadership style and funding. A gap in the literature between the correlation of executive director leadership style and the potential relationship on financial performance of nonprofit arts organizations has been identified. This study closed that gap by examining the executive director of nonprofit arts organization leadership style and its correlation to financial performance, funding, and donations

received by the organization. The review of the literature supports the development of hypotheses and research questions presented in Chapter 3, as well as the research design and methodology to investigate these questions. Chapter 3 will also describe the sample used, survey instrument, data collection and data analysis procedures used in this study.

Chapter 3: Research Method

This chapter presents the research design to determine whether a relationship exists between the leadership style used by executive directors of nonprofit arts organizations and financial performance of the organization. The purpose of the study was to fill a gap in the body of knowledge regarding the significance of leadership style, especially transformational leadership, within nonprofit arts organizations. This chapter includes the research design, sample, instrumentation, data collection and analysis, validity and reliability, ethical considerations, and a summary.

Research Design

According to Creswell (2014), all sources of relevant information must be considered to advance development and investigation of theory, which can be described as making propositions and analyzing the relationships of variables that attempt to explain phenomena. Because the literature gaps relating to leadership style in the nonprofit sector reveal that more empirical research is needed to understand the relationship between transformational leadership and employee engagement and organizational performance in the nonprofit sector (Hackman & Johnson, 2013), I used a quantitative, nonexperimental, descriptive research design. A nonexperimental approach was best suited for answering my research questions because manipulation of the predictor variable would not fit the research design. Experimental studies allow for manipulation of a variable to determine causality. Nonexperimental studies can help the researcher describe behavior, but they do not provide identification of causes or reasons for behavior (Cooper & Schindler, 2011). One instrument was used for this study: the

Multifactor Leadership Questionnaire (MLQ 5X-Short), which is used to measure leadership style (Avolio & Bass, 2004), the independent variable in this study. A one way analysis of variance (ANOVA) and the Mann-Whitney U Test were used to test the hypotheses. The dependent variables (financial performance, contract and grants revenue received, and personal philanthropic gifts received) were measured using ratio data that were obtained from archival IRS Form 990 for each nonprofit organization.

Philosophy and Justification

I used a nonexperimental, cross-sectional design to determine whether executive directors of nonprofit arts organizations that use a particular leadership style have better financial performance. This study addressed whether the transformational leadership style of executive directors in nonprofit arts organizations was related to increased funding and donations received. The literature indicated that executive directors are directly responsible for the financial health of their respective nonprofit organizations. Funds are important to the survival, development, and building of a nonprofit organization (Osula & Ng, 2014). Successful funding seems to be related to the leadership style and the programming within nonprofit arts organizations. To fill a knowledge gap, it was important to test the relationship between fund-raising and leadership styles. If research findings indicate a positive relationship between higher levels of transformational leadership and higher levels of funding and donations received, nonprofit organizations may benefit from the executive director using the transformational leadership style.

I used the survey method, which is one of the most widely used methods to collect quantitative data (Babbie, 2015). In addition, the survey method is suitable for collecting data from a population that is too large for a researcher to directly observe (Babbie, 2015). The MLQ-5X can easily be administered via computers. The survey research design allows for assessing trends and opinions from the population that will be sampled (Creswell, 2014). In addition, surveys are an efficient and cost-effective way to measure variables across groups (Babbie, 2015). Though the survey method is effective and efficient, surveys may not provide any additional insight into responses given.

The qualitative approach was not used in this study because the qualitative approach does not allow for generating a hypothesis and testing the hypothesis through observation (Babbie, 2015). Using the qualitative design would not have supported the objective of the study and would not have generated quantifiable data to measure leadership style or financial performance. The mixed-methods approach was considered for this study. However, the qualitative portion that would have included conducting interviews with each executive director would have placed additional time constraints on an already time and resource challenged population. In addition, if interviews were done, the possibility of interviewer bias may have been introduced into the study. Bias occurs when an interviewer asks a question that may lead the respondent to answer in a certain manner (Babbie, 2015).

The quantitative research design was appropriate for this study because it provided a logical and systematic way to test whether differences in leadership style of executive directors affects financial performance of the nonprofit arts organization. The

survey method and use of the IRS Form 990 to gather financial information resulted in quantifiable data to examine the relationship between variables.

Research Questions

Leadership style of the executive director may affect the amount of funding nonprofit arts organizations receive. I investigated whether transformational leadership style leads to higher levels of financial performance in nonprofit arts organizations. The following research questions (RQs) and hypotheses were used in the study.

RQ 1: To what extent does financial performance differ across leadership styles of executive directors in nonprofit arts organizations after controlling for organizational size as measured by number of employees?

1H₀: There is no difference in financial performance based on leadership style.

1H₁: Financial performance is significantly higher for leaders with transformational leadership style when compared to other styles.

RQ 2: To what extent does contract and grants income received differ across leadership styles of executive directors in nonprofit arts organizations after controlling for organizational size as measured by number of employees?

2H₀: There is no difference in contracts and grants income received based on leadership style.

2H₁: Contracts and grants income received is significantly higher for leaders with transformational leadership style when compared to other styles.

RQ 3: To what extent do philanthropic personal gifts received differ across leadership styles of executive directors in nonprofit arts organizations after controlling for organizational size as measured by number of employees?

$3H_0$: There is no difference in philanthropic personal gifts received based on leadership style.

$3H_1$: Philanthropic personal gifts received are significantly higher for leaders with transformational leadership style when compared to other styles.

Sample

The target population of this study was executive directors of nonprofit arts organizations within the Dayton-Cincinnati Metropolitan area with more than \$25,000 in gross annual receipts. I identified participants through random selection of nonprofit arts organizations who self-identified their type of nonprofit as arts and culture and who met the location restriction within the Dayton-Cincinnati Metropolitan area. The executive director was eligible to participate in this study if he or she was the executive director of the nonprofit organization on January 1, 2013.

According to GuideStar, there are 940 nonprofit arts organizations within Brown, Butler, Clark, Clermont, Darke, Greene, Hamilton, Miami, Montgomery, Preble, and Warren counties that make up the Dayton-Cincinnati Metropolitan Area. The population of nonprofit arts organizations that fell within the selected National Taxonomy of Exempt Entities (NTEE) codes for art museums (A51), singing choral (A6B), performing arts (A60), ballet (A63), theatre (A65), symphonic orchestra (A69), natural history/natural science (A56), dance (A62), opera (A6A), and bands and ensembles (A6C) totaled 236

organizations. Sample size was determined using G* Power Version 3.1.9.2. A suitable sample size for this study was calculated to be 159 based on a .25 effect size, alpha (α) .05, power of .80 and 3 groups because there are three main leadership styles (Faul, Erdfelder, Lang, & Buchner, 2007). The sample included almost 67% of the population.

The 236 organizations were sent an e-mail announcing the survey (Appendix A). This e-mail was used to verify e-mail addresses that were listed on GuideStar and ensure that the organizations were continuing as going concerns. Each executive director was also sent a letter of invitation to participate in the research survey. This letter included my name, telephone number, e-mail address, and consent form (Appendix B).

Each participant was offered an electronic copy of the leadership survey results as an incentive to encourage survey participation. Executive directors who participated in the survey received a description of the various leadership styles, which leadership style the executive director is using, and a summary of the findings.

Instrumentation

One instrument was used in this study. Permission to use the instrument was obtained from the authors (Appendix F). Gender, highest education level, years of experience as an executive director, age group, number of direct reports, and number of employees in the organization were also requested to investigate how the demographic variables were associated with the various measures. Transformational leadership was measured using Avolio and Bass's (2004) Multifactor Leadership Questionnaire (MLQ 5X-Short) as shown in Appendix G. Organizations including the military, manufacturing, religion, and education have used the MLQ to study leadership styles.

Participants responded to 45 items in the MLQ 5x-Short, which included a 5-point scale with responses ranging from 0 = Not at all to 4 = Frequently, if not always. This scale was treated as a continuous measure consistent with the work done by Bass and Avolio (1990), Avolio et al. (1999), and Avolio and Bass (2004). The MLQ 5x-Short is used to measure the full range of leadership described in Bass's (1985) theoretical continuum ranging from transformational leadership to laissez-faire leadership. The MLQ 5x-Short includes 45 descriptive statements in which respondents are asked to describe the leadership style of the person to whom they directly report, as they perceive it. The MLQ provides high levels of interrater reliability (Avolio & Bass, 2004).

The MLQ has nine subscales, the first five of which are measures of transformational leadership: (a) idealized influence (behaviors), (b) idealized influence (attributes), (c) inspirational motivation, (d) intellectual stimulation, and (e) individualized consideration. The other four subscales are used to measure transactional leadership (contingent reward, active and passive management-by-exception) and laissez-faire leadership. The MLQ Form 5X is used to measure the average for each scale to determine overall leadership style. The average score is calculated by summing the numerical responses to the items and then dividing the sum by the number of items that make up the scale. If the respondent leaves an answer blank, the total for that scale is divided by the number of questions answered. The highest score on each scale determines the leadership style.

Data Collection

The target population was executive directors of nonprofit arts organizations within the Dayton-Cincinnati Ohio, metropolitan area. Gender, highest education level, years of employment, age group, organizational location, number of direct reports, and number of employees in the organization were requested to run descriptive statistical analysis of the population. The commercial questionnaire administration service, Survey Monkey, was used to distribute the questionnaire for this study, the MLQ Form 5X. This survey was used to collect data to determine the leadership style of the executive director, which was the independent variable for this study. The survey was distributed to those who identified themselves as nonprofit executive directors in the Dayton-Cincinnati, Ohio metropolitan area according to GuideStar. Web-based technology allowed participants to respond at convenient locations and times, which increased the response rate. An online version of the MLQ 5X assessment was created and administered in a single session including questions and instructions. Instructions were given to participants on how to complete the session using the original instructions of the individual instrument. Instructions were provided to participants to complete the survey over a period of 30 days. At that time the anticipated time to respond to all items in the survey was 15 minutes. Because this survey was administered online, all respondents determined the time and place in which they responded. The survey was scheduled to be open for 30 days with e-mail reminders sent on Days 8 and 19. At the end of 30 days, the desired number of survey responses had not been received, so the time period to collect the surveys was extended by an additional 15 days. On Day 31, the survey was resent to

potential respondents who had not yet returned the survey. Additional e-mail reminders were sent on Days 34 and 40. The survey closed on Day 45. Microsoft Excel 2010 was used to export discrete response data into Statistical Package for the Social Sciences (SPSS) v. 22, preserving the entire original data set.

Organizational financial data for each nonprofit organization were taken from the IRS Form 990 Organizations Exempt Under Section 501(c) (3). The ratios for financial performance, program efficiency, and fund-raising efficiency were calculated for each organization in Microsoft Excel 2010. The number of contracts, grants, and personal philanthropic gifts was also taken from the IRS Form 990 and noted for each nonprofit organization. Executive director leadership style was matched to the respective organization's financial data.

Data Analysis

SPSS was used to calculate statistics and test the hypotheses. Descriptive statistics such as means, standard deviations, and percentages were calculated to aid in the determination that all assumptions and requirements were met for parametric tests. Data were coded within SPSS in a data file that contained responses to all questionnaire questions. Each row corresponded to a participant's response to every question, and columns corresponded to each item in the assessment. SPSS was used to calculate the subscales and total scores. The testing of hypotheses necessitated measurements of differences between groups of executive directors based on leadership style used. The null hypothesis was rejected if it was found to be significant at the $p \leq .05$ level.

The minimum number of survey respondents was 58 in order to have valid measures for this study. I proposed using a one way analysis of covariance (ANCOVA) to determine if there were significant differences in financial performance across directors' leadership styles while controlling for size of the organization, however preliminary analysis revealed that the covariate, organizational size as measured by number of employees, was not linearly related to the dependent variables. Therefore a one way analysis of variance (ANOVA) was used to test the hypotheses. The primary benefits of using ANOVA are that it can be used to explore situations where there are more than two groups and that it is a singular test for multiple simultaneous comparisons (Babbie, 2015). The main disadvantage of ANOVA is that although it will tell whether or not there is a difference between groups, it will not tell where the difference lies (Babbie, 2015). Levene's test was used to determine homogeneity of variance. If the p-value from Levene's test was less than 0.05, then there was a difference between the variances in the population, which violated one of the assumptions of ANOVA. Normality was tested using the Shapiro-Wilk Test. If the significance value of the Shapiro-Wilk Test was greater than 0.01, then the data were considered to come from a normally distributed population. If it was below 0.01 then the data from the population did not have a normal distribution.

Validity and Reliability

Validity

The MLQ 5X-short used Likert type ordinal scales that were treated as continuous variables (Avolio et al., 1999; Avolio & Bass, 2004; Bass & Avolio, 1990). Validity tests

how well an instrument measures the specific concept it is supposed to measure (Field, 2009). Construct validity attempts to identify the underlying construct being measured and how well the test represents it (Cooper & Schindler, 2011). Avolio and Bass's (2004) factorial analysis of the MLQ demonstrated strong construct validity, with subscales ranging from moderate to good. Rowold and Heinitz's (2007) empirical study of the MLQ supported content validity, which measures the degree to which the items adequately represent the universe of all relevant items in the study (Cooper & Schindler, 2011). Convergent validity is an indicator of the degree to which the constructs that expected to be related are actually related. Rowold and Heinitz's study of the MLQ found that transformational leadership had high convergent validity with each of the MLQ's subscales and that transformational leadership was divergent from transactional leadership. The criterion-related validity, is the degree to which the predictor is adequate in capturing the relevant aspects of the criterion (Cooper & Schindler, 2011), for transformational leadership was found to be high by Avolio and Bass (2004). Judge and Piccolo (2004) used regression analysis and meta-analytics to calculate an overall relative validity score of .44 for transformational leadership on the MLQ based on 626 correlations from 87 sources, demonstrating that transformational leadership displays the strongest and most consistent correlations and highest levels of validity among the leadership styles within the MLQ.

Reliability

Reliability tests how consistently an instrument measures a specific concept (Field, 2009). Reliability of these three instruments has been demonstrated in a number

of previous studies. The Avolio et al. (1999) quantitative research collected data through a total of 3,786 respondents in 14 independent samples of the MLQ, with sample sizes ranging from 45 to 549. The models were tested originally in a nine-sample set and then a second time with a five-sample set. When comparing initial samples with replication samples; consistency and reliability were high (i.e., .80 to .90). Muenjohn and Armstrong's (2007) calculation of Cronbach's alpha, which measures internal consistency, demonstrated that the MLQ has had reliabilities varying from .86 to .90. Bass's early work identified test-retest reliability coefficients for the MLQ rates ranging from .73 to .82 on the various scales, with even higher reliability coefficients obtained in later research (Bass, 1997). Rowold (2005) found that the test-retest reliabilities of this MLQ's leadership scales were generally high and significant. The MLQ technical manual (Bass & Riggio, 2006) reported that internal consistencies for all scales averaged .80 which is acceptable.

Ethical Considerations

According to the Academy of Management (2015), ethical considerations for research in organizations begin with responsibility, integrity, and respect for people's rights and dignity. I practiced basic respect for people, beneficence, and justice (National Institute of Health, 2015) in my study. Privacy and confidentiality were respected and ensured appropriately by anticipating possible uses of information. No personal gains were achieved. Although no study is entirely free of risk, it was not expected that participants would be harmed or distressed by participating in this research.

Participation in this study was voluntary and there were no consequences for not participating in the study. Participants received an informed consent form before participating in the study. Informed consent is a legally-effective, voluntary agreement that is given by a prospective research participant following comprehension and consideration of all relevant information pertinent to the decision to participate in a study (National Institute of Health, 2015). A copy of the informed consent is provided in Appendix B. Participants were required to click on, “I agree,” or “I do not agree,” in order to indicate their consent or non-consent to participation.

The results of this study were published, but names or identities will not be disclosed. In order to maintain confidentiality of data, I was not be able to associate completed surveys to participants. In order to maintain confidentiality of the data, I will keep the data for the mandatory seven year time period in an encrypted file. At the end of those seven years, the data will be destroyed.

Permission to conduct this study was granted by Walden University’s Institutional Review Board. Walden University’s approval number for this study was IRB #04-07-16-0077917 and it expires on April 6, 2017. All data gathered was in full compliance with Walden University’s Institutional Review board and was collected via explicit permission from research participants.

Summary

In Chapter 3 I discussed the research methodology that was employed to investigate the research questions and corresponding hypotheses. Included in this review of research methodology for the study were the research design, sample, and

instrumentation. The Multifactor Leadership Questionnaire along with reliability, validity, and scoring were also discussed. Data collection and analysis including the software program that will be implemented were also discussed. The chapter closed with ethical considerations of the study.

Chapter 4: Results

The purpose of this study was to explore possible relationships between the leadership style of nonprofit arts executive directors and the financial levels of contracts, grants, and annual personal philanthropic gifts. This quantitative study included a nonexperimental, cross-sectional design to determine whether executive directors of nonprofit arts organizations who use a particular leadership style have better financial performance. Research questions focused on the extent to which financial performance and income streams differed based on the executive director's leadership style. This chapter presents the participants of the study, data collection procedures, and results of the statistical analysis. This chapter also includes the findings and significance of the results.

Data Collection

Data collection and participant recruitment began with an initial listing of nonprofit arts organizations' e-mail addresses from Guidestar. These organizations were selected because they fell within the selected National Taxonomy of Exempt Entities (NTEE) codes for art museums (A51), singing choral (A6B), performing arts (A60), ballet (A63), theatre (A65), symphonic orchestra (A69), natural history/natural science (A56), dance (A62), opera (A6A), and bands and ensembles (A6C). The e-mail addresses were validated by sending the e-mail announcing the study to all 236 organizations on the initial e-mail listing. Based upon the analysis run in G*Power, the sample size was determined to be 159.

After receiving Walden University Institutional Review Board approval (IRB #04-07-16-0077917), I collected data over a 6-week period during April and May 2016. Only those participants who had not yet responded were sent e-mail reminders. The survey was originally scheduled to close on Day 30; however, in an effort to get more responses, I kept the survey open for an additional 2 weeks. The survey closed on Day 45. Table 3 summarizes the survey administration.

Table 3

Schedule of Survey Administration

Activity	Administration Day	Date
Sent First Mailing	Day 1	April 18
Sent First Reminder	Day 8	April 25
Sent Second Reminder	Day 19	May 6
Original Survey Closure	Day 30	May 17
Resend Mailing	Day 31	May 18
Third Reminder	Day 34	May 21
Fourth Reminder	Day 40	May 27
Survey Closed	Day 45	Jun 1

The survey was designed using Survey Monkey as discussed in Chapter 3. The demographic questions were presented first followed by the questions making up the Multifactor Leadership Questionnaire (MLQ-Form 5X). The survey included questions in the areas of transformational leadership, transactional leadership, and nonleadership (*laissez-faire*) (Appendix G). Each survey recipient received a unique website URL directing the recipient to the survey. Access to the survey was limited to the respective respondent due to each recipient receiving a unique URL. Therefore, an access code was not used. In addition, during survey creation the option of limiting survey responses to

one computer was selected to prevent respondents from submitting more than one survey response.

The survey closed after 45 days. Any participant who tried to access the survey after the survey closed received the message “This survey is now closed but thank you for your willingness to participate.” Data collected by the online data collection site were exported into Microsoft Excel and then into SPSS v. 22 for analysis.

Results

Microsoft Excel was used to transform the data into usable information. Demographics tabulated were age, gender, years of experience, education, city, number of direct reports, and total employees. The data were then disaggregated across the different demographic categories based upon location (Dayton, Ohio or Cincinnati, Ohio) of the nonprofit arts organization to give insight into similarities or differences based upon location. Microsoft Excel was also used to score the surveys and identify the independent variable, executive director’s leadership style, as determined by the MLQ portion of the survey. Lastly, Microsoft Excel was used to record the dependent variables (amounts for contract/grant income received and personal philanthropic gifts received) as well as to calculate the ratios for financial performance, program efficiency, and fund-raising efficiency.

Microsoft Excel 2010 was used to export data into SPSS v. 22, preserving the entire original data set. SPSS was used to calculate statistics and test the hypotheses. The hypotheses necessitated measurements of differences between groups of executive directors based on leadership style used. Descriptive statistics such as means, standard

deviations, and percentages were calculated to ensure that all assumptions and requirements were met for parametric tests.

Demographics

I invited 236 executive directors to participate in this study. 117 directors (50%) completed the survey. The same number gave their consent to participate because the Introduction Letter to Solicit Participation and Consent (Appendix B) included the verbiage “by virtue of the executive director completing the survey they will have given consent to participate in this study.” No other consent form was used. All surveys were completed electronically.

Table 4 shows that almost 60% of the participants were female and that more than one third were between the ages of 55 and 64. There were no respondents between the ages of 18 and 24 or in the 75-and-above category. Table 4 also shows that more than two thirds of the respondents reported having either a master’s degree or a doctoral degree as the highest level of education achieved.

Table 4 also shows that approximately 30% of the respondents were from Dayton, Ohio, and 70% of the respondents were from Cincinnati, Ohio. These percentages closely resembled the percentages of total organizations from each city invited to participate in the study. The population was made up of 68 organizations from Dayton, Ohio (29%) and 168 from Cincinnati, Ohio (71%) totaling 236. Participants reported that almost three fourths had fewer than seven direct reports.

Table 4

Sample Demographic Characteristics

Demographic	<i>n</i> (%)
Gender	
Male	47 (40.2%)
Female	70 (59.8%)
Age	
18-24	0 (0.0%)
25-34	12 (10.3%)
35-44	26 (22.2%)
45-54	21 (17.9%)
55-64	41 (35.0%)
65-74	17 (14.5%)
75+	0 (0.0%)
Education	
Less than associate's degree	0 (0.0%)
Associate's degree	2 (1.7%)
Bachelor's degree	31 (26.5%)
Master's degree	52 (44.4%)
Doctoral degree	28 (23.9%)
Other	4 (3.4%)
City	
Dayton	34 (29.1%)
Cincinnati	83 (70.9%)
Years of Experience	
< 5 years	15 (12.8%)
5-9 years	20 (17.1%)
10-14 years	35 (29.9%)
15 + years	47 (40.25%)

Table 4 (cont.)

Sample Demographic Characteristics

Demographic	<i>n</i> (%)
Total Employees	
0-10 employees	17 (14.5%)
11-20 employees	15 (12.8%)
21-30 employees	52 (44.4%)
31-40 employees	11 (9.4%)
41-50 employees	10 (8.5%)
Direct Reports	
None	2 (1.7%)
1-3	36 (30.8%)
4-6	46 (39.3%)
7-9	16 (13.7%)
10+	17 (14.5%)

Financial Data

The means and standard deviations were calculated for the following lines from the IRS form 990: Total Revenue (Line 12), Unrestricted Contributions (Line 8), Contract/Grant Revenue (Part VIII Line 1e), Personal Philanthropic Gifts, Total Expenses (Line 18), Program Service Expenses (Part IX Line 25B), and Unrestricted Fund-raising Expenses (Line 16 b). These data are presented in Table 5.

Table 5

Means and Standard Deviations for Revenue and Expenses

Line Item	Min.	Max.	<i>M</i>	<i>SD</i>
Total Revenue (Line 12)	46,219.00	8,527,216.00	1,026,611.31	868,531.22
Unrestricted Contributions (Line 8)	229,483.60	4,871,048.00	586,402.96	496,127.53
Contract/Grant Revenue (Part VIII Line 1e)	3,089.10	123,576.66	46,158.07	27,577.38
Personal Philanthropic Gifts	147.94	11,392.81	5,017.29	2,928.50
Total Expenses (Line 18)	59,285.00	8,529,365.00	1,075,860.44	865,370.05
Program Service Expenses (Part IX Line 25b)	32,353.30	6,289,688.00	721,385.49	632,068.29
Unrestricted Fund-raising Expenses (Line 16b)	2,875.32	413,363.00	52,176.57	41,947.34

The means and standard deviations were calculated for the following ratios using the line-item information presented above as follows: Financial Performance (Total Revenue Line 12/ Total Expenses Line 18), Program Efficiency (Part IX Line 25b / Line 18), and Fund-raising Efficiency (Line 16b / Line 8). These data are presented in Table 6.

Table 6

Means and Standard Deviations for Financial Performance, Program Efficiency, and Fund-raising Efficiency

Financial Ratio	Min.	Max.	<i>M</i>	<i>SD</i>
Financial Performance	0.7184	1.1533	0.9181	0.0746
Program Efficiency	0.4547	0.7978	0.6371	0.0583
Fund-raising Efficiency	0.9020	0.9593	0.9296	0.0122

Multifactor Leadership Questionnaire

The next step of data analysis was to identify the executive director's leadership style for each respondent based on the answers to the survey tied to each leadership behavior. The scoring key is presented in Table 7.

Table 7

Leadership Style and Corresponding Survey Questions

Style	Behavior Measured	Survey Questions
Transformational Leadership (TRF)	Idealized Attributes	17, 25, 28, 32
	Idealized Behavior	13, 21, 30, 41
	Inspirational Motivation	16, 20, 33, 43
	Intellectual Stimulation	9, 15, 37, 39
	Individualized Consideration	22, 26, 36, 38

Table 7 (cont.)

Leadership Style and Corresponding Survey Questions

Style	Behavior Measured	Survey Questions
Transactional Leadership (TRX)	Contingent Reward	8, 18, 23, 42
	Management-by-Exception Active	11, 29, 31, 34
Non Leadership (LF)	Management-by-Exception Passive	10, 19, 24, 27
	Laissez Faire	12, 14, 35, 40
Factors not Used	Extra Effort*	44, 47, 50, 52
	Satisfaction*	45, 48
	Effectiveness Commitment*	46, 49, 51

Note. * These behaviors and associated questions were not used in this analysis.

The MLQ was scored by adding the score for the items in each respective leadership style and dividing by the numbers of items that make up the respective style. Based on the highest score received in each of the three categories, the respondent was categorized as having a transformational, transactional, or laissez-faire leadership style. Results indicated that 94 respondents (80.34%) were identified as having the transformational leadership style, 21 respondents (17.95%) were identified as having the transactional leadership style, and two respondents (1.71%) were identified as having the laissez-faire leadership style. After the leadership style within the sample of participating

nonprofit executive directors was identified, the next step was to use this information to answer the research questions.

Research Questions

Research Question 1

Research Question 1 asked: To what extent does financial performance differ across leadership styles of executive directors in nonprofit arts organizations after controlling for organizational size as measured by number of employees? This question resulted in the following hypotheses:

IH₀: There is no difference in financial performance based on leadership style.

IH₁: Financial performance is significantly higher for leaders with transformational leadership style when compared to other styles.

I proposed using a one-way ANCOVA to assess if differences existed in the financial performance, program efficiency, and fund-raising efficiency performance measures. I focused on the transformational and transactional styles of leadership for each performance measure since the laissez faire leadership style was identified by only two respondents. A grouped scatter plot with regression lines added for each performance measure revealed that the covariate, organizational size as measured by number of employees, was not linearly related to the dependent variable (financial performance, program efficiency, and fund-raising efficiency) at each level of the independent variable (leadership style). I transformed the dependent variable and reran the scatterplots; however there were still not a linear relationship between the dependent variable and each level of the independent variable. In both instances, the regression

lines were not parallel which also suggested that an additional assumption for ANCOVA, of homogeneity of regression slopes was also violated. I conducted ANOVA instead of the planned ANCOVA for these reasons .

Financial performance. I conducted a one-way ANOVA was to determine if the financial performance (FINPERF) was different for organizations with different ED leadership styles. Participants were classified into two groups: transformational ($n = 94$) and transactional ($n = 24$). There were no outliers in the data as assessed by a visual inspection of a boxplot; data was normally distributed each group as assessed by Shapiro-Wilk's test ($p > .05$); and there was homogeneity of variances, as assessed by Levene's test for equality of variances ($p = .788$). The organizations' financial performance increased from transformational leadership ($n = 94$, $M = .9175$, $SD = .0753$), to transactional ($n = 21$, $M = .9190$, $SD = .0739$) but the differences between these leadership styles were not statically significant, $F(1,113) = .007$, $p = .935$. The group means were not statistically significantly different ($p > .05$) and, therefore I cannot reject the null hypothesis and I cannot accept the alternative hypothesis. Means and standard deviations on financial performance by leadership style are presented in Table 8.

Table 8

Means and Standard Deviations for Financial Performance by Leadership Style

Leadership Style	N	Min.	Max.	M	SD
	115				
Transformational	94	0.7184	1.1533	0.9175	0.0753
Transactional	21	0.7493	1.0304	0.9190	0.0739

Program efficiency. I conducted a one-way ANOVA to determine if the program efficiency (PROGEFF) was different for organizations with different ED leadership styles. Participants were classified into two groups: transformational ($n = 94$) and transactional ($n = 21$). There were no outliers in the data as assessed by a visual inspection of a boxplot; data was normally distributed each group as assessed by Shapiro-Wilk's test ($p > .05$); and there was homogeneity of variances, as assessed by Levene's test for equality of variances ($p = .711$). The organizations' program efficiency increased from transformational leadership ($n = 94$, $M = .6350$, $SD = .0578$), to transactional ($n = 21$, $M = .6492$, $SD = .0621$) but the differences between these leadership styles were not statistically significant, $F(1,113) = 1.009$, $p = .317$. The group means were not statistically significantly different ($p > .05$) and, therefore I cannot reject the null hypothesis and I cannot accept the alternative hypothesis. Means and standard deviations on financial performance by leadership style are presented in Table 9.

Table 9

Means and Standard Deviations for Program Efficiency by Leadership Style

Leadership Style	N	Min.	Max.	M	SD
	115				
Transformational	94	0.4547	0.7692	0.6350	0.0158
Transactional	21	0.5479	0.7978	0.6492	0.0621

Fund-raising effectiveness. I conducted a one-way ANOVA to determine if the fund-raising efficiency (FUNDEFF) was different for organizations with different ED leadership styles. Participants were classified into two groups: transformational ($n = 94$)

and transactional ($n = 21$). There were no outliers in the data as assessed by a visual inspection of a boxplot; data was normally distributed each group as assessed by Shapiro-Wilk's test ($p > .05$); and there was homogeneity of variances, as assessed by Levene's test for equality of variances ($p = .763$). The organizations' program efficiency decreased from transformational leadership ($n = 94$, $M = .0930$, $SD = .0122$), to transactional ($n = 21$, $M = .0927$, $SD = .0125$) but the differences between these leadership styles were not statistically significant, $F(1,113) = 1.001$, $p = .319$. The group means were not statistically significantly different ($p > .05$) and, therefore I cannot reject the null hypothesis and I cannot accept the alternative hypothesis. Means and standard deviations on fund-raising efficiency by leadership style are presented in Table 10.

Table 10

Means and Standard Deviations for Fund-raising Efficiency by Leadership Style

Leadership Style	N	Min.	Max.	M	SD
	115				
Transformational	94	0.0902	0.0959	0.0930	0.0122
Transactional	21	0.0903	0.0950	0.0927	0.0125

Research Question 2

Research Question 2 asked: To what extent does contract and grants income received differ across leadership styles of executive directors in nonprofit arts organizations after controlling for organizational size as measured by number of employees? This question resulted in the following hypotheses:

$2H_0$: There is no difference in contracts and grants income received based on leadership style.

$2H_1$: Contracts and grants income received is significantly higher for leaders with transformational leadership style when compared to other styles.

I proposed using a one way ANCOVA to assess if differences existed in contract and grant revenue received by leadership style. I focused on the transformational and transactional styles of leadership for each performance measure since the laissez faire leadership style was identified by only two respondents. A grouped scatter plot with regression lines added revealed that the covariate, organizational size as measured by number of employees, was not linearly related to the dependent variable (contract and grant revenue) at each level of the independent variable (leadership style). I transformed the dependent variable and reran the scatterplots, however there were still not a linear relationship between the dependent variable and each level of the independent variable. In both instances, the regression lines were not parallel which also suggested that an additional assumption for ANCOVA, that there should be homogeneity of regression slopes was also violated. I conducted ANOVA instead of the planned ANCOVA for these reasons.

During the ANOVA analysis, the Shapiro-Wilk test indicated that CONTGRA score was not normally distributed for the transformational and transactional leadership groups, ($p < .05$). I transformed the dependent variable and reran the Shapiro-Wilk test. Again, this test indicated contract and grant revenue was not normally distributed. At that point, a nonparametric test was used to test the hypothesis instead of the ANOVA. I

used the Mann-Whitney U test since there were only two groups (transformational and transactional leadership). I did not use the Kruskal-Wallis H test because this test is usually used when there are 3 or more categorical independent groups. Means and standard deviations on financial performance by leadership style are presented in Table 11.

Table 11

Means and Standard Deviations for Contract and Grant Revenue by Leadership Style

Leadership Style	N	Min.	Max.	M	SD
	115				
Transformational	94	3080.10	111871.57	49594.47	34959.43
Transactional	21	4345.07	123576.33	43602.76	32593.66

I ran a Mann-Whitney U test to determine if there were differences in contract and grant revenue between the different ED leadership styles. Since the posited null hypothesis could not be tested, and additional hypothesis for Research Question 2 was added to assess the results.

Hypothesis 2a

Null Hypothesis (H₀): The distribution of contract and grant revenue is the same across categories of leadership style.

Distributions of the contract and grant revenue for transformational and transactional leadership styles were not similar, as assessed by visual inspection. Median contract and grant revenue was not statistically significantly different between the

transformational (mean rank = 59.00) and transactional (mean rank = 53.52), $U = 893$, $z = -.680$, $p = .496$. Mean ranks are presented in Table 12.

Table 12

Mean and Sum of Ranks on Contract and Grant Revenue by Leadership Style

Leadership Style	N	Mean Rank	Sum of Ranks
	115		
Transformational	94	59.00	5546.00
Transactional	21	53.52	1124.00

Research Question 3

Research Question 3 asked: To what extent do philanthropic personal gifts received differ across leadership styles of executive directors in nonprofit arts organizations after controlling for organizational size as measured by number of employees? This question resulted in the following hypotheses:

$3H_0$: There is no difference in philanthropic personal gifts received based on leadership style.

$3H_1$: Philanthropic personal gifts received are significantly higher for leaders with transformational leadership style when compared to other styles.

I proposed using a one-way ANCOVA to assess if differences existed in philanthropic personal gifts received by leadership style. I focused on the transformational and transactional styles of leadership for this performance measure since the laissez faire leadership style was identified by only two respondents. A grouped scatter plot with regression lines added indicated that the covariate, organizational size as measured by number of employees, was not linearly related to the dependent variable

(personal philanthropic gifts) at each level of the independent variable (leadership style). I transformed the dependent variable and reran the scatterplots; however there was still not a linear relationship between the dependent variable and each level of the independent variable. In both instances, the regression lines were not parallel which also suggested that an additional assumption for ANCOVA, that there was homogeneity of regression slopes was also violated. I conducted ANOVA instead of the planned ANCOVA for these reasons .

During the ANOVA analysis, the Shapiro-Wilk test indicated that PERGIFT score was not normally distributed for the transformational and transactional leadership groups, ($p < .05$). I transformed the dependent variable and reran the Shapiro-Wilk test. Again, this test indicated personal philanthropic gift revenue was not normally distributed. At that point, a nonparametric test was used to test the hypothesis instead of the ANOVA. I used the Mann-Whitney U test since there were only two groups (transformational and transactional leadership). I did not use the Kruskal-Wallis H test because this test is usually used when there are 3 or more categorical independent groups. Means and standard deviations on financial performance by leadership style are presented in Table 13.

Table 13

Means and Standard Deviations for Personal Philanthropic Gift Revenue by Leadership Style

Leadership Style	N	Min.	Max.	M	SD
	115				
Transformational	94	147.94	11392.81	5033.33	2912.75
Transactional	21	1945.09	10807.86	5365.00	2866.91

I ran a Mann-Whitney U test to determine if there were differences in personal philanthropic gift revenue between the different ED leadership styles. Since the posited null hypothesis could not be tested, and additional hypothesis for Research Question 3 was added to assess the results.

Hypothesis 3a

Null Hypothesis (H₀): The distribution of personal philanthropic gift revenue is the same across categories of leadership style.

Distributions of the personal gift revenue for transformational and transactional leadership styles were not similar, as assessed by visual inspection. Median personal philanthropic gift revenue was not statistically significantly different between the transformational (mean rank = 57.59) and transactional (mean rank =59.86), U =1026.00, z =.282, p =.778. Mean ranks are presented in Table 14.

Table 14

Mean and Sum of Ranks on Personal Philanthropic Gift Revenue by Leadership Style

Leadership Style	N	Mean Rank	Sum of Ranks
	115		
Transformational	94	57.59	5413.00
Transactional	21	59.86	1257.00

Summary

I presented the results of data analysis and statistical analysis for each of three research questions in Chapter 4. Data analysis from the Multifactor Leadership Questionnaire showed that the transformational leadership style was the most prevalent (80.34%) among the executive directors within this study followed by transactional (17.95%) and laissez-faire (1.71%). Since the laissez-faire group had such few respondents, I only completed analysis for the transformational and transactional leadership styles.

Research Question 1: The results of the ANOVA for each measure indicated that the group means were not statistically significant and that there was no difference in financial performance based on leadership style as measured by the MLQ. The alternate hypothesis, as tested by the performance measures of financial performance, program efficiency, and fund-raising efficiency was not supported.

Research Question 2: The results of the Mann-Whitney U test for contract and grant revenue did not detect any significant differences between leadership styles of the nonprofit executive directors. The alternate hypothesis, as tested by contract and grant revenue was not supported.

Research Question 3: The results of the Mann-Whitney U test for personal philanthropic gift revenue did not detect any significant differences between leadership styles of the nonprofit executive directors. The alternate hypothesis, as tested by personal gift revenue was not supported.

Although the study did not provide support for any of the alternative hypotheses, I will summarize the study and present interpretation of the findings, limitations of the study recommendations and implications for social change in Chapter 5 I will also discuss any inconsistencies within the data or alternate interpretations of the findings in Chapter 5 .

Chapter 5: Discussion, Conclusions, and Recommendations

In Chapter 1, I introduced the research problem and outlined how the continued lack of empirical evidence on the relationship between executive director leadership style and financial performance may prevent nonprofit arts organizations from receiving the necessary financial resources to continue providing services to the community. In Chapter 1, I identified the purpose of the study as examining the relationship between the leadership style used by executive directors of nonprofit arts organizations and the financial performance of the organization. Contemporary leadership theories within nonprofit organizations were explored in Chapter 2 by examining the definition of leadership, nonprofit leadership, and the role of the executive director. I also reviewed the evolution of transformational leadership styles, the measurement of leadership style of nonprofit executive directors, and the association between executive director leadership style and organizational funding.

The methodology and research design of the study and ethical considerations including protecting participant confidentiality were described in Chapter 3. The sample and survey instrument used for the study, as well as data collection and analysis procedures, were also included in Chapter 3. In Chapter 4, I presented results indicating

that the leadership style most used by nonprofit arts executive directors was transformational leadership (80.34%) followed by transactional (17.95%) and laissez-faire leadership (1.71%). Results did not support the alternative hypotheses for Research Questions 1, 2, or 3 because the statistical tests did not indicate any statistically significant differences. In Chapter 5, I present the interpretation of the findings, limitations of the study, recommendations for further research, implications of the study, and a conclusion.

Interpretation of the Findings

The necessary sample size to have statistical power of .80 was 159 respondents. Out of the 236 executive directors who were invited to participate, only 117 responded to the survey. This was a response rate of approximately 50%. The sampling plan precluded generalizing results beyond the study population. However, the findings did indicate that the transformational leadership style was the most prevalent leadership style used by nonprofit arts organization executive directors in the Dayton-Cincinnati metropolitan area.

Research Question 1

For Research Question 1 (to what extent does financial performance differ across leadership styles of executive directors in nonprofit arts organizations after controlling for organizational size as measured by number of employees?), the findings provided evidence that both transformational and transactional leaders are found within nonprofit arts organizations. Two participants demonstrated the laissez-faire leadership style, but

there were not enough respondents to test for significant differences compared to the other two leadership styles.

Financial measures for the two remaining leadership styles were similar as measured by the financial performance, program efficiency, and fund-raising effectiveness ratios. The small difference in ranges as broken out by leadership style may indicate that these organizations, no matter the leadership style, are operating at or near breakeven. Many foundation grants and government contracts used by nonprofits are established as break-even contracts. By extension, the organizations tend to also operate at breakeven. The top ends of the ranges were above 1.0, which indicates that some of the organizations have excess revenue to move to operating reserves. The transformational leaders' top range was larger than the top range for transactional leaders, which shows that the transformational leaders are thinking of the big picture and saving funds for an emergency. This may also mean that the transformational leaders were in some way able to either reduce expenses or increase revenue in ways that the transactional leaders were not able to do.

The levels of program efficiency were similar for both leadership styles. The program efficiency ratio, which was used to compare program expenses to total expenses, had little variation between the two leadership styles. The means of both leadership styles were approximately 64%, which is very close to the industry standard of 65% as measured by Charity Navigator (2016). Although transformational leaders may have more of a mission-driven leadership style, these data show that both leadership styles are able to empower the nonprofit organization to effectively follow its mission. This is

important because several nonprofit stakeholders, including board members and potential donors, rely on this ratio to make informed decisions. Both leadership styles are similar in showing how much the nonprofit spends on the organization's mission as opposed to administrative expenses.

Both leadership styles also showed similarities in the area of fund-raising efficiency. The means for fund-raising efficiency ratio for both transformational and transactional leaders was approximately .0900. This shows that both leadership styles are effective at raising funds to support organizational missions. This ratio is used to assess the cost of generating 1 dollar of contributions. Ideally, a higher number is better because it shows that the nonprofit is able to generate more than how much it costs to do fund-raising. These organizations, no matter what leadership style is being used, are able to spend 1 dollar in fund-raising and generate 9 dollars of contributions. All of these organizations appear to be highly efficient when it comes to fund-raising.

Research Question 2

For Research Question 2 (to what extent does contract and grants income received differ across leadership styles of executive directors in nonprofit arts organizations after controlling for organizational size as measured by number of employees?), the findings showed that both transformational and transactional leaders are found within nonprofit arts organizations. Two participants demonstrated the laissez-faire leadership style, but there were not enough respondents to test for significant differences compared to the other two leadership styles.

The data showed a similarity in the amount of contract and grants revenue received by leadership style. The mean for contract and grants revenue for transformational leaders was approximately \$6,000 higher than for transactional leaders; however, this was not significant when compared to total organizational revenue. These findings may indicate that this revenue stream may be more similar to earned income and other revenue streams that are not as relationship oriented. The maximums for both leadership styles appeared to be quite large; however, without doing trend analysis over multiple years, I could not determine whether there was an underlying reason for these numbers being so high or if this was a fiscal anomaly.

Research Question 3

For Research Question 3 (to what extent does personal philanthropic gift income received differ across leadership styles of executive directors in nonprofit arts organizations after controlling for organizational size as measured by number of employees?), the findings showed that both transformational and transactional leaders are found within nonprofit arts organizations. Two participants demonstrated the laissez-faire leadership style, but there were not enough respondents to test for significant differences compared to the other two leadership styles.

The data showed a similarity in the amount of personal philanthropic gift revenue received by leadership style. The means for personal philanthropic gifts for transformational leaders and transactional leaders were approximately \$5,000. These figures, as related to total organizational revenue, are quite small, and do not provide as much organizational information as the financial performance, program efficiency, and

fund-raising efficiency ratios. These figures may be small because this category of revenue may be a catchall for revenue that was not classified somewhere else.

Theoretical Perspective

The findings of the study may also be viewed from a theoretical perspective. The findings showed that there were no significant statistical differences by leadership style for each of the three research questions. A possible reason for this may be that a true transformational leader uses the best and most effective way to achieve the mission. A transformational leader may not use values, esteem, and personal characteristics to address daily ordinary issues but rather revert to transactional leadership to complete these tasks (Avolio et al., 1999; Bass, 1985; Bass & Avolio, 1990; Eagly & van Engen, 2003; Green, Madjidi, Dudley, & Gehlen, 2001; Judge & Piccolo, 2004; Krishnan, 2004; Pawar, 2003).

Burns (1978) asserted that transactional leadership and transformational leadership, were part of a single leadership theory and could be measured on one scale. Bass (1985) postulated that both transactional leadership and transformational leadership should be separated into two discrete leadership styles. Bass asserted that an effective leader could use different aspects of each leadership style. Therefore, at a single point in time it may be difficult to measure the dominant leadership style because different situations call for a different response and use of a different leadership style.

Bass and Avolio (1993) asserted that transactional and transformational leadership were related and proposed the augmentation theory, which stated that transformational leadership is based on and adds to the transactional style of leadership

(Bass & Avolio, 1993). Transformational leadership builds on transactional leadership and takes it a step further. Transformational leaders promote the development of followers who then perform beyond expectations due to the increased loyalty to the leader and the organizational mission (Howell & Avolio, 1993). However, due to the similarities between the leadership styles and the fact that transformational leadership is an offshoot of transactional leadership, differences in leadership style may not be easily identified within the nonprofit arts population. My findings indicated that, as measured, there was no evidence to support the hypotheses that differences in performance based on financial outcome measures were associated with leadership style.

Though the findings in this study were not statistically significant, the findings do not necessarily contradict those of other studies that addressed leadership (Bass, 1985; Burns, 1978; Eagly & van Engen, 2003; Judge & Piccolo, 2004) and its relationship with financial performance measures (Brown, 2005; Ritchie & Kolodinsky, 2003). Further, Brown (2005) and Ritchie and Kolodinsky (2003) used financial indicators to measure nonprofit organizational performance by using the IRS Form 990 to investigate not-for-profit financial and organizational execution. Ritchie and Kolodinsky (2003) asserted that key proportions, when accessible, could be used to measure execution over the long term. Vaughan and Arsneault (2013) postulated that financial ratios could be used to comparable organizations and permit the basis of financial viability criteria to be established. However, my findings indicated that the relationship between leadership style and performance outcomes in nonprofit arts organizations needs more investigation. My study showed that due to the similarities between transformational and transactional

leadership styles, significant statistical differences in impact on financial performance were not apparent. Transformational characteristics (inspiration, shared vision, innovative problem-solving, and developing followers' sense of self and importance to the organization) are not diametrically opposed to transactional characteristics (operational focus), which may skew the results attributed to both groups.

The transformational leadership theory was well represented in this study's findings. Previous research findings support the assertion that an executive director's leadership style does impact organizational outcomes (Eagly & van Engen, 2003; Green, et al., 2001; Krishnan, 2004; Pawar, 2003). Other studies that included the Multifactor Leadership Questionnaire indicated that respondents overwhelmingly had a transformational leadership style (Freeborough & Patterson, 2015; Hayati, Charkhabi, & Naami, 2014). My findings aligned with previous findings by showing that 94 respondents (80.34%) were identified as having the transformational leadership style, 21 respondents (17.95%) were identified as having the transactional leadership style, and two respondents (1.71%) were identified as having the laissez-faire leadership style.

The statistical techniques used in this study did not reveal any statistically significant differences between the two leadership styles and any of the dependent variables. The findings did not allow the null hypotheses to be rejected; however, it is important to note that this does not mean that the null hypotheses are automatically accepted. Failing to find an effect is not the same as showing no effect. The null hypotheses are a possibility and could possibly be observed under different circumstances. The null hypotheses in my study may not have been rejected if I

increased the sample size to include nonprofit arts organizations outside the Dayton-Cincinnati metropolitan area or used a different population of nonprofit organizations.

Limitations of the Study

The main limitation was that although the response rate of 50% allowed results to be generalized to the nonprofit organizations within the Dayton-Cincinnati metropolitan area, I was unable to generalize the results to other geographical or metropolitan areas within the United States. Although the Multifactor Leadership Questionnaire is the flagship instrument used to measure transformational leadership, it is a survey instrument in which the respondent has to answer each question within a predetermined range of answers without the opportunity to ask clarifying questions. In addition, this study included only one survey instrument. Using additional instruments such as the Global Transformational Leadership (GTL) scale may have resulted in a more accurate assessment of the leadership style of the executive directors. For this study, the Multifactor Leadership Questionnaire was given as a self-rater instrument. However, it also has the capability of being used as a 360-degree multirater instrument, which gives both the executive director's perception of his or her leadership style as well as colleagues' perceptions of the executive director's leadership style. Using a 360-degree approach may have provided a more accurate assessment of each executive director's leadership style and perhaps a fuller view of the executive director's leadership.

The IRS Form 990, Organizations Exempt Under Section 501(c) (3), also provided an area for limitations during this study. One organization may not report financial elements the same way as a comparable organization reports the same element.

It is possible for an organization to artificially inflate its program efficiency ratio by using information found on the IRS form 990. The person responsible for filling out the form may record various types of administrative and fund-raising costs as reductions in revenue rather than expenses, which results in understating program expenses and increasing the program efficiency ratio. Conversely, organizations can also bury fund-raising expenses within program costs which also prevents an accurate assessment of organization's financial data.

Recommendations

The field of nonprofit management can benefit from additional research in the area of nonprofit leadership and its relationship to financial performance. I recommend completing the study again using a different version of the Multifactor Leadership Questionnaire. My study used the self-rater form to measure transformational leadership. Mind Garden also offers the MLQ-360 Suite which contains the multirater forms that would also be sent to colleagues of the nonprofit executive director in order to get a more well-rounded view of the leadership style. I also recommend expanding the study to include nonprofit arts organizations outside southwestern Ohio to strengthen the validity of the study and increase generalizability of the findings. .

I would also recommend adding a qualitative aspect to the study and conducting the research with a sequential explanatory mixed methods design. Adding a qualitative portion to the study may allow other facets of leadership and financial performance to be captured. I also recommend that future studies include other types of nonprofit organizations so that the sample is less homogenous. Ritchie and Kolodinsky (2003)

asserted that the financial indicators are less effective at measuring financial performance when the members of the group are very similar. Lastly I recommend using more than one year of financial information from the IRS form 990. Using multi-year financial information would allow the financial ratios to be calculated for more than one period to assess if the ratios are increasing, decreasing, or holding steady. This approach would allow for detecting trends and sustainability of the nonprofit organization.

Implications

Nonprofit arts organizations provide community enrichment. The loss of nonprofit arts organizations may have significant economic repercussions within the community, which would then hinder community development and revitalization efforts (Americans for the Arts, 2014). In order for these benefits to continue, arts organizations must remain viable by utilizing all available tools to maintain financial performance so that they remain open. This type of environment underlies the need for leaders who can use visionary attributes to generate and accumulate backing from staff, volunteers, and patrons for projects and services intended to enhance the community. Nonprofit arts organizations also need to use quantitative, duplicable measures to determine organizational efficiency and effectiveness in these areas. This research offers community stakeholders, funders, and supporters a potential methodology for assessing the benefits of transactional leadership as it relates to financial performance. Although the outcomes reported in Chapter 4 were not statistically significant, they are important because they offer a starting point to further explore the arts organization executive director leadership style, the impact of that style on financial performance and execution,

and can improve organizational capacity to react to requests for quantifiable support of viable and effective financial performance.

Conclusion

The nonprofit arts organization sector fuels economic growth in many metropolitan areas. This expanding sector generates employment opportunities and revenues and is the foundation of recreational activities in many communities. The arts play a critical role in the economy and play a significant role in learning and discovery for many. Robust financial success can help the arts organizations achieve their organizational and social goals. This research provided preliminary evidence that transformational leadership is found within nonprofit arts organizations and that organizational performance can be correlated to leadership using financial performance measures. The study demonstrated that transformational leadership was the most prevalent leadership style within nonprofit arts organizations within the Dayton-Cincinnati Ohio metropolitan area.

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Appendix A: E-Mail Announcing Research Study

Dear Executive Director:

I am a current doctoral student studying nonprofit leadership and management. Within the next two weeks, you will receive an invitation to participate in a regional nonprofit organization survey designed to identify leadership styles of executive directors of arts and cultural organizations. This research project is for my doctoral thesis.

The information you will receive will outline the parameters of the study and offers the option to take a short online survey. Please remember that your responses are confidential. The survey will include demographic information, however; your identity and data gathered will remain confidential. All data results will be reported in aggregate.

Completion of the survey will be tracked so that participants who complete the survey will receive an electronic copy of the research results. Survey completion will also be tracked in order to compare the identified leadership style of the executive director from the survey to organizational financial results from IRS form 990 to identify if there is any correlation between leadership style and financial performance. Lastly surveys will also be tracked in order to send reminders to participants to complete the survey during the period the survey is open.

Thank you in advance for your time and consideration of the request.

Sincerely,

Alicia D. White-Alsup
Doctoral Candidate
School of Public Policy and Administration
Walden University

Appendix B: Introduction Letter to Solicit Participation and Consent

Dear Executive Director:

As the Executive Director of a nonprofit arts organization, you are being asked to participate in a regional nonprofit organization survey designed to identify leadership styles of executive directors of nonprofit arts and cultural organizations. Current research mainly focuses on for-profit organizations and your participation in this study will allow important data to be collected about Executive Director leadership style and the overall financial performance of nonprofit arts organizations. If you participate in this study you will receive an electronic copy of the research results. Please note that in order to participate in this study you must be over the age of 18 and were the Executive Director of your organization as of January 1, 2013.

Permission to conduct this study will be granted by Walden University's Institutional Review Board. Walden University's approval number for this study is IRB #04-07-16-0077917 and it expires on April 6, 2017.

Your organization was selected for this study because it falls within the NTEE categories A51, A6B, A60, A63, A65, A69, A56, A62, A6A, and A6C. If you agree to participate in the study, you will be asked to complete an online survey that takes approximately 15 minutes to complete. The survey will include demographic information, however; your identity and data gathered will remain confidential. All data results will be reported in aggregate. Reports generated from data collected in the study will not contain any information that could be used to identify survey participants or the nonprofit arts organization.

Completion of the survey will be tracked so that participants who complete the survey will receive an electronic copy of the research results. Survey completion will also be tracked in order to compare the identified leadership style of the executive director from the survey to organizational financial results from IRS form 990 to identify if there is any correlation between leadership style and financial performance. Lastly surveys will also be tracked in order to send reminders to participants to complete the survey during the period the survey is open.

Please keep a copy of this letter should you need to contact me. Your participation is strictly voluntary and there is no compensation provided for your participation in this study. After receiving the survey, you may decline and withdraw from participation.

There are no risks associated with participating in this study and there are no short- or long-term individual benefits to participating. However, it is hypothesized that the research will collectively benefit the nonprofit sector if academia and other training programs improve their curricula and nonprofit business models.

The records of this study will be kept private. In any report of this study that might be published, I will not include any information that will make it possible to identify you or your organization. Research records will be kept in a locked file, and only the researcher will have access to the records.

If you have questions, please contact me via e-mail or by telephone. My Dissertation Committee Chair is Dr. Mark Gordon. If you wish to privately discuss your rights as a research participant, you may call Dr. Leilani Endicott. She is the Walden University representative who can discuss this with you.

Below you will find the “Begin Survey Link”, which is a website URL to access the survey form. Each survey participant will receive a unique survey link. Clicking this link below indicates that you are over the age of 18, you were the executive director of your organization as of January 1, 2013, and indicates your consent to participate in this study.

Begin the Survey

Thank you for considering this request.

Alicia D. White-Alsup
Doctoral Candidate
School of Public Policy and Administration
Walden University

Appendix C: Initial E-Mail Participant Survey

Dear Executive Director:

Last week I sent you an e-mail asking you to participate in a regional nonprofit organization survey designed to identify leadership styles of executive directors of arts and cultural organizations. As you know, this research project is for my doctoral dissertation.

I appreciate your willingness to participate and value your feedback. I would greatly appreciate you completing the survey now. The survey should take approximately 15 short minutes. The survey will close in just 30 days.

Please remember that your responses are confidential. The survey will include demographic information, however; your identity and data gathered will remain confidential. All data results will be reported in aggregate.

Completion of the survey will be tracked so that participants who complete the survey will receive an electronic copy of the research results. Survey completion will also be tracked in order to compare the identified leadership style of the executive director from the survey to organizational financial results from IRS form 990 to identify if there is any correlation between leadership style and financial performance. Lastly surveys will also be tracked in order to send reminders to participants to complete the survey during the period the survey is open.

Your participation is strictly voluntary and there is no compensation provided for your participation in this study. Please remember that even after starting the survey, you may decline and withdraw from participation.

Please read the attached consent form for additional study information and the survey link to participate in this study.

If you have questions, please contact me via e-mail or by telephone. Thank you in advance for your time and consideration of the request.

Sincerely,

Alicia D. White-Alsup
Doctoral Candidate
School of Public Policy and Administration
Walden University

Appendix D: First Survey Reminder

Dear Executive Director:

Last week I sent you an e-mail asking you to participate in a regional nonprofit organization survey designed to identify leadership styles of executive directors of arts and cultural organizations. As you know, this research project is for my doctoral dissertation.

If you have not yet had the chance to take the survey, I would greatly appreciate you completing the survey now. The survey should take approximately 15 short minutes.

Please remember that your responses are confidential. The survey will include demographic information, however; your identity and data gathered will remain confidential. All data results will be reported in aggregate.

Completion of the survey will be tracked so that participants who complete the survey will receive an electronic copy of the research results. Survey completion will also be tracked in order to compare the identified leadership style of the executive director from the survey to organizational financial results from IRS form 990 to identify if there is any correlation between leadership style and financial performance. Lastly surveys will also be tracked in order to send reminders to participants to complete the survey during the period the survey is open.

Your participation is strictly voluntary and there is no compensation provided for your participation in this study. Please remember that even after starting the survey, you may decline and withdraw from participation.

Please read the attached consent form for additional study information and the survey link to participate in this study.

If you have questions, please contact me via e-mail or by telephone. Thank you in advance for your time and consideration of the request.

Sincerely,

Alicia D. White-Alsup
Doctoral Candidate
School of Public Policy and Administration
Walden University

Appendix E: Follow-up E-Mail Participant Survey Reminder

Dear Executive Director:

This is the final reminder e-mail asking you to participate in a regional nonprofit organization survey designed to identify leadership styles of executive directors of arts and cultural organizations. As you know, this research project is for my doctoral dissertation.

The survey will close in just 10 short days. Please take the survey before it closes because each additional response will make the data findings more significant.

Please remember that your responses are confidential. The survey will include demographic information, however; your identity and data gathered will remain confidential. All data results will be reported in aggregate.

Completion of the survey will be tracked so that participants who complete the survey will receive an electronic copy of the research results. Survey completion will also be tracked in order to compare the identified leadership style of the executive director from the survey to organizational financial results from IRS form 990 to identify if there is any correlation between leadership style and financial performance. Lastly surveys will also be tracked in order to send reminders to participants to complete the survey during the period the survey is open.

Your participation is strictly voluntary and there is no compensation provided for your participation in this study. Please remember that even after starting the survey, you may decline and withdraw from participation.

Please read the attached consent form for additional study information and the survey link to participate in this study.

If you have questions, please contact me via e-mail or by telephone. Thank you in advance for your time and consideration of the request.

Sincerely,

Alicia D. White-Alsup
Doctoral Candidate
School of Public Policy and Administration
Walden University

Appendix F: Permission for Use of the Multifactor Leadership Questionnaire

From: Mind Garden <info@mindgarden.com>

To: alicia.whitealsup@waldenu.edu

Date: Mon, Sep 7, 2015 at 2:13 PM

Subject: Re: [Mind Garden] Message from contact form - General Questions

Hello Alicia,

Thank you for contacting Mind Garden.

Use of the MLQ will require that you purchase a license for each administration. For example, if you survey 200 people, you will need a license for 200 administrations. You can purchase the licenses in various formats (pdf for you to reproduce/administer via paper/pen...or...online via our system...or...in pdf format for you to retype/reformat onto another online platform) and you can purchase them [here](#).

Best,

Katherine

Mind Garden, Inc.

Appendix G: Sample Questions from the Multifactor Leadership Questionnaire Form 5X

Key:	0 = Not at all	2 = Once in a while	3 = Fairly often	4 = Frequently, if not always
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Transformational Leadership Styles

Idealized Influence (Attributes)	I go beyond self- interest for the good of the group.	0	1	2	3	4
Idealized Influence (Behaviors)	I consider the moral and ethical consequences of decisions.	0	1	2	3	4
Inspirational Motivation	I talk optimistically about the future.	0	1	2	3	4
Intellectual Stimulation	I reexamine critical assumptions to question whether they are appropriate	0	1	2	3	4
Individualized Consideration	I help others to develop their strengths.	0	1	2	3	4

Transactional Leadership Styles

Contingent Reward	I make clear what one can expect to receive when performance goals are achieved.	0	1	2	3	4
Management by Exception: Active	I keep track of all mistakes	0	1	2	3	4

Passive/Avoidant Leadership Styles

Management by Exception: Passive	I wait for things to go wrong before taking action.	0	1	2	3	4
Laissez- Faire	I avoid making decisions.	0	1	2	3	4