Strategic Leadership Styles and Organizational Financial Performance: A Qualitative Study on Private Hospitals

Mithat Kıyak, Tuba Bozaykul, Pınar Güngör, Esra Aktaş

Abstract

The aim of the study is to examine and provide an assessment of strategic leadership styles in acquiring efficient financial performance during financial crises. The leaders' role and leadership practices in overcoming financial crises with the minimum financial loss are the main aspirations of this research. As a data collection method in depth and semi-in depth method are conducted. Qualitative type of research is used in the present study. In this study, qualitative interviews will be conducted with the five general managers of the most notable private hospitals at the Anatolian side of Istanbul. According to the results of the Strategic Leadership Style questionnaire, it is founded that Manager A and D have both Ethical and Transformational Leadership Styles with the scores of 4.6 and 4.8. On the other hand, Manager B, C and E have Ethical Leadership Style with the scores of 4.5, 4.5, 5.1 respectively. In terms of the scorecard, Hospital Manager A has the most Managerial Leadership Style and Political Leadership Style rather than the others. Manager E has the highest score in terms of ethical leadership style; Manager D has the highest value (4.9) in terms of transformational leadership style.

Keywords: strategic leadership, leadership styles, financial performance, global financial crisis, private hospitals, qualitative research

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1. Introduction

Leadership is an imitative, selective, role-taking, empathetic process besides it is how to handle implementation of the strategies and source and target in leadership is crucial. Leadership is a process, an effectiveness which creates and communicates the team in an organization. [9]

The main theory behind strategic leadership is ‘Upper Echelon Theory’ developed by Hambrick and Mason (1984). According to the theory, demographic characteristics of senior executives such as age, education and experience affects the type and amount of information they use therefore it affects the strategic decisions and financial performance. [4]

Baik (2004) mentioned that company’s strategic leadership plays a critical role in developing a company’s capabilities for expanding its competitive advantage and performance.

In this study, the political, managerial, transformational, and ethical strategic leadership styles are expected to affect the organization’s financial decisions and outcomes. The purpose is to analyze strategic leadership attitudes and behaviors during the recent economic crisis and to find out which types of strategic leadership are most influential on the financial decision making process at that crisis period.

The paper is structured in the following manner. First, literature is briefly reviewed regarding strategic leadership, financial hospital performance and the recent world economic crisis. Then, the problem statement of the study is presented. For the methodology, qualitative interviews will be conducted with the five general managers of the most notable private hospitals at the Anatolian side of Istanbul.

Data collection method and data examination procedures are explained in details. Finally, the data interpretations together with their managerial and theoretical implications are discussed.

2. Literature Review and Hypotheses

According to the further studies of strategic leadership, Hosmer, (1982) stated that contingency theories of leadership didn’t remark for an organization’s competitive position in the industry. [8] Hosmer suggested that the duty of the leader was different from a manager because a leader should consider the organizational strategy associated with the external environment. As a result, strategic leadership denotes a higher order of capability that contains both developing strategy and influencing others to follow it.

According to Yuki (2006), strategic leadership style can effects the three performance indicators with a combination of direct and indirect behaviors. [5] Direct behaviors contain those behaviors which are task, relationship and change oriented. [5]

A second form of effect is to identify and implement crucial improvement programs, management systems, and sights of competitive strategy. [5]

The theory claimed that transformational leaders inspire followers to get through individual expectations in order to achieve targets for efficacy of organizations. [3] Transformational leaders’ association with followers are described by behaviors that represented individualized consideration, inspirational motivation, intellectual stimulation, and idealized influence. [3]
Transformational leaders strongly affect employees and cause the organizational objectives to pass in front of their own personal expectations. [12] Managerial strategic leaders need to find out the right people whom they can work together and collaborate. [11]

Trevino and colleagues (2000a, b) found two ways of ethical leadership in their research. [6] The first was that of the moral person and the second was that of the moral manager. The moral person suggests the basis of ethical leadership. On the other hand, the moral managers put ethics at the front of their agenda. [6]

According to Treadway et al. 2004, political leaders can easily perceive social signs and read followers behavioral motives. This situation influences the employee-leader relationship increasing employee performance together with organizational financial performance.

A crisis, which is the important pillar of the study, in a general framework, can be defined as the failure of intervening to threatening conditions. [1] According to some researchers, crisis is expressed as threats that may affects the products, services, methods, processes or reputation of organizations. [1] Moreover, it can be stated that financial performance of an organization has direct relation to the power or ability to use assets from its primary mode of business and gain revenues. The recent global crisis has been a hard examination for firms and been an important issue for its widespread economic consequences. Although there are many debates on the crisis’ origin, to Aluko (2008), its reason was the failure of the mortgage lending of the investment banking industry in the US. [7]

Based on the literature and the recent economic developments, the problem statement of the study is formulated as follows: “How private hospital managers’ strategic leadership styles affect hospitals’ financial performance during the recent global economic crisis?”

3. Methodology

To examine leadership styles and their influences on organizational financial outcomes, a qualitative type of research methodology is used. Depth interviews are composed of questions which are aimed to analyze the leadership styles of an organization during an economic turbulence.

The questions of the in-depth interview are developed by examining the literature concerning leadership style, financial organizational performance and economic crises.

The sample of the research consists of top managers of five private hospitals located in Istanbul. By taking appointments, semi-structured interviews are conducted at various times at each manager’s office between 15th and 31th of March, 2011. Each in-depth interview lasted 45 minutes in average. The in-depth interviews are carried out by an academic who has a 25-year-sector experience and an assistant. Before each interview, the researchers explain the aim of the research in detail and ask for permission in order to record the interview. Both audio recordings and notes taken during the interview are used for analyses. The questions of the interview are as follows:

1. How does the current mortgage crisis, started at the end of 2008, affect your hospital?
2. What kind of precautions do you take against the financial crisis?
3. How were the strategic decisions taken before and after the crisis? Was the process changed with the turbulence? Did you make any significant changes about your strategic plans during the economic crisis?
To assess the leadership styles of our respondents, Strategic Leadership Questionnaire (Pisapia and Guerra, 2005) is used. The questionnaire includes 64 items to measure the ethical, political, transformational and managerial leadership styles. Together with the statistical analysis of the questionnaire, the interviews are interpreted to see the accordance of leadership styles and leadership attitudes under the economic crisis’ conditions.

It’s expected to find out that all strategic leadership styles play role in the financial decisions and attitudes and the managerial leadership is the most adopted style during the crisis. Ethical leadership style is expected to have the least impact on the financial performance while political leadership is expected to be adopted during the crisis. These expectations signify that, along with an economic crisis, the strategic leadership styles are important means for top management to achieve sustainability and competitive advantage over the competitors in the market.

4. Data Analysis and Findings

4.1. Socio-Demographics of the Participants

Our sample consists of five general managers working at the category of A type general hospitals in Istanbul. The four of the managers are male and the ages of the managers range from 45 to 50. Both Manager B and Manager E have a MA degree of hospital management and Manager D has a Ph.D. degree on hospital management. Manager A and C don’t have any graduate education on management. However, manager A, B, and C claimed that they had strategic management education. Managers’ tenure in health sector is as follows: Manager A and E 15 years, Manager B 24 years, Manager C 20 years and Manager D 25 years. Managers A, B and C evaluate their working environment competitive; whereas, Managers D and E state that they conduct their operations in a competitive environment.

Table 1. Demographic Characteristics of Respondents

<table>
<thead>
<tr>
<th></th>
<th>HOSPITAL MANAGER A</th>
<th>HOSPITAL MANAGER B</th>
<th>HOSPITAL MANAGER C</th>
<th>HOSPITAL MANAGER D</th>
<th>HOSPITAL MANAGER E</th>
</tr>
</thead>
<tbody>
<tr>
<td>EDUCATION LEVEL</td>
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<td>Doctorate</td>
<td>Doctorate</td>
<td>Doctorate</td>
<td>Doctorate</td>
</tr>
<tr>
<td>AGE</td>
<td>45-50</td>
<td>45-50</td>
<td>40-45</td>
<td>45-50</td>
<td>45-50</td>
</tr>
<tr>
<td>EDUCATION IN HEALTH</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
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<tr>
<td>MANAGEMENT</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>TITLE</td>
<td>CEO</td>
<td>CEO</td>
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<td>CEO</td>
<td>CEO</td>
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<tr>
<td>WORK PERIOD IN</td>
<td>15</td>
<td>24</td>
<td>20</td>
<td>25</td>
<td>15</td>
</tr>
<tr>
<td>HEALTH SECTOR</td>
<td></td>
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</table>
4.2. Statistics of Strategic Leadership Questionnaire

To categorize the strategic leadership characteristics of managers, first average scores were calculated according to the characteristics of the managers who are attended to the survey. Strategic leadership characteristics were measured with 16 questions and unanswered questions excluded from the calculation. The scores were calculated in terms of answered questions. For example, if an executive answered 15 questions about transformational leadership rather than 16, sum of scores were divided by 15 to find the transformational leadership score. (Table 2)

Table 2. Scorecard of Leadership Styles

<table>
<thead>
<tr>
<th></th>
<th>HOSPITAL MANAGER A</th>
<th>HOSPITAL MANAGER B</th>
<th>HOSPITAL MANAGER C</th>
<th>HOSPITAL MANAGER D</th>
<th>HOSPITAL MANAGER E</th>
</tr>
</thead>
<tbody>
<tr>
<td>MANAGERIAL LEADERSHIP</td>
<td>70/16=4.3</td>
<td>62/16=3.8</td>
<td>61/16=3.8</td>
<td>66/16=4.1</td>
<td>43/11=3.9</td>
</tr>
<tr>
<td>ETHICAL LEADERSHIP</td>
<td>75/16=4.6</td>
<td>73/16=4.5</td>
<td>72/16=4.5</td>
<td>80/16=5</td>
<td>36/7=5.1</td>
</tr>
<tr>
<td>POLITICAL LEADERSHIP</td>
<td>66/15=4.4</td>
<td>63/16=3.9</td>
<td>64/16=4</td>
<td>56/15=3.7</td>
<td>36/9=4</td>
</tr>
<tr>
<td>TRANSFORMATIONAL LEADERSHIP</td>
<td>73/15=4.8</td>
<td>64/16=4</td>
<td>64/16=4</td>
<td>79/16=4.9</td>
<td>39/10=3.9</td>
</tr>
<tr>
<td>RESULTS</td>
<td>Transformational/Ethical Leadership</td>
<td>Ethical Leadership</td>
<td>Ethical Leadership</td>
<td>Transformational/Ethical Leadership</td>
<td>Ethical Leadership</td>
</tr>
</tbody>
</table>

After the evaluation of the scorecard the study have conducted the results of the in-depth interview related with the financial performance of the hospitals during the world financial crises and policies of the Social Security Institution (SSI).

4.3. Interviews with the Participants

4.3.1. The Mortgage Crisis and A type Private Hospitals in Istanbul

In line with the in-depth interviews, it’s analyzed that there’s a consensus among five managers on the negative economic consequences of the recent economic crisis. All managers notified that the private healthcare sector is especially affected because the sector was in the middle of a growth period when the crisis outburst in 2008. According to the participant managers, the effects of the economic crisis are two folds: one is related with the financial institutions that are in relation with the hospitals in terms of credits and loans and the other is the decline in patients’ willingness to buy private health care services.

To Manager C, The Turkish finance sector was strong enough to overcome the crisis. However, the main problem resides in the decrease in individual income levels. As most consumers’ purchase demand declined, the private hospitals’ share in health care industry was affected.

Manager C: “...when we are affected, after a while after the crisis burst, a sharp decrease in consumer purchase demand was felt. The small and medium sized enterprises that got fed by the active flows in economy had losses up to %30 in their sales. So, these people stop wasting their money...”

Another point to be mentioned here is that, to all managers, the recent policies made by the Ministry of Health has doubled the negative financial consequences of the economic crisis. For instance, Manager E remarked that their health care institution was in the middle of a restructuring and was planning a new branch by taking a long-term credit from a bank. As the hospital contracted with SSI and SSI had no
regular payment at that time, they had difficulties in paying their credit loans to the bank. The management decided to sell 50% shares and thus, strengthened the financial position.

Manager E: “If we didn’t find a partner at that period, we had no ways to pass the turbulence, we would possibly have lost our hospital.”

Likewise, Manager B commented that their operations declined sharply due to the crisis but the most irritating pressure exerted on private health care industry was that of newly made SSI regulations.

Manager B: “At that time, we clearly felt the negative effects of crisis in October-November, 2008. However, we were affected severely by the crisis especially because we became more insecure through SSI regulations.”

4.3.2. Precautions Taken Against Economic Crisis

According to managers A, B, C and D, the main pressure was the sharp decline in consumer’s purchase intentions. Manager C supposes that as the individual consumer income was reduced to 30%, due to the economic downturn, they started to spend less money on health care. Confirming this, Manager A states that there was a loss of bargaining power on their behalf as both health insurance companies and individual patients paying cash becomes more sensitive on their expenses.

Manager A: “….Health insurance companies started to check their losses more tightly and behave more meanly. On the other hand, our patients demanded more discounts and we tried to continue our operations without any rise in prices.”

Together with these effects, all managers underlined a loss in the hospital endorsements. To overcome the turbulence with the minimum harassment, all managers took some precautions. The most notable precautions were related with personnel expenses. Except Manager A, all managers reduced the number of their personnel, especially those working at the night’s sessions. Instead of having personnel working at nights’ services, they decided to meet the personnel need from the day-time specialists. Moreover, they reevaluated their personnel expenses and increased the salaries with small percentages like 5% or did not increase the amounts at all. Managers mentioned that what makes a hospital different than the others is its professors and personnel. Therefore, by stopping the contracts, they reduce the expenses; yet, this has a bad effect on the outcomes.

For instance, Manager C’s first action was to pause personnel recruitment, whereas Manager E declared that they reduced the number of professors who were from diverse disciplines. To Manager E, by reducing the number of managers, the hospital, to a range, lost its competitiveness in the market as they are noted for their distinct health care services.

Manager C and E stated that besides personnel, they had also reduced the number of managers, especially that of the assistant managers and HR managers. Another precaution taken by the managers is to strengthen their bargaining power over other interest groups. For instance, Manager C indicated that they extended their payment date, whereas Manager E noted that they put great effort on buying cheaper materials, medicines etc.
4.3.3. Changes in the Strategic Management

Another point to be mentioned here is that all managers declared that their strategic plans deviated due to the changes in the economic behavior of the market and customers. After the economic turbulence, Manager B reported that they gave the decision of focusing international customers and through strategic alliances with the Ministry of Health; they succeeded in increasing their revenue. To this manager, with a proactive manner, they turned the crisis period into an opportunity for growth.

Manager B: “The crisis had to be evaluated as an opportunity. Therefore, it was no time to withdraw to our shell. If a withdrawal decision was taken, it would be like waiting for death. So required actions had to be taken, so this is what we did desperately.”

Another manager who read the conditions of crisis as a growth opportunity was Manager A. To that manager, making investments at such uncertainty periods requires leaders with visions and courage. Manager A underlined that they put great effort in making strategic alliances both locally and globally. To Manager A, those who found the niches in the market and making investments when everybody is hesitating to make a move, will be the main players in the sector in the forthcoming years.

A different point mentioned by Manager C is that the economic crisis disturbs the institutionalization of private health care hospitals. As great concern was on the expenses, the owners of the hospitals started to interfere more into the daily operations. The autonomy of management was lost and to give the sense of economization to the personnel, the owners insist on using cheaper materials.

Manager C: “In fact, these were not really something to reduce costs. Even if you lessen these things amount 10 times, it won’t make an important change in your balance sheet. It is just to give the feeling of time of savings to the personnel…”

4.3.4. The Social Security Institution’s Regulations

In the semi-structured questionnaire, there was no question about the recent Social Security Institution’s policies and regulations. However, all managers underline these policies’ negative influences on private healthcare sector. Therefore, the common argument put forward by the managers about the Social Security Institution’s (SSI) policies related with private health care institutions found worth mentioning under this heading.

SSI implemented a new policy at the end of 2008, according to which private hospitals having a contract with Social Security Institution can only demand %30 of service cost from the patients. Moreover, from 2008, government stopped covering the expenses of a certain group of patients depriving private health institutions of a remarkable revenue item.

Manager B: “We had contracted with SSI for all branches. Suddenly, one million became a big zero. For nine months, it was just a zero. All in all, we had to work with the worst possible scenario—the economic crisis together with SSI losses within 9 months…”

To overcome these losses emerged at the same time of the financial crises, managers either stop their contracts with SSI or they try to apply more flexible price policies rather than SSI price policies.
Manager X: “From 6th to 11th month of 2008, we couldn’t get our money from SSI. As we are in line with %30 rule, we had an immense loss... After 2008, we started to follow a more flexible pricing policy. This is how our hospital survived...”.

5. Discussion and Conclusion

According to the results of the Strategic Leadership Style questionnaire, it is founded that Manager A and D have both Ethical and Transformational Leadership Styles with the scores of 4.6 and 4.8. On the other hand, Manager B, C and E have Ethical Leadership Style with the scores of 4.5, 4.5, 5.1 respectively.

In terms of the scorecard, Hospital Manager A has the most Managerial Leadership Style and Political Leadership Style rather than the others. Manager E has the highest score in terms of ethical leadership style; Manager D has the highest value (4.9) in terms of transformational leadership style.

From these results, it can be stated that ethical leadership style is the most preferred and adopted style at the private healthcare hospitals during the recent financial crisis. This type of leadership is notable for his/her responsible and fair attitudes. At the beginning of the study, although it’s expected that ethical leadership style is the least important style for managers at turbulence periods. However, the results showed that all participants have high levels of ethical leadership style. In the interviews, all managers declare that they did their best not to dismiss their workers and to keep their service quality at the same level during the crisis. The in-depth interviews reveal the fact that the managers pay special attention to respect the interests of stakeholders. For instance, they all state that they take economic precautions in an ethical manner as much as they can. They not only dismiss their workers but also try to rise their salaries. The managers paid their receipts on time, not to put the suppliers in financially poor positions. Only one of the managers confessed that the hospital had to charge higher costs than what the government regulations dictated. It’s also worth noting here that the health care sector together with Turkish culture can be the indirect reasons of that outcome, as well.

The second leadership style adopted by our participant managers is transformational leadership. Manager A and D bear this leadership style and both managers succeeded to grow their market share through alliances and partnerships during the turbulence. Both managers overcome the period with increased revenues and new investments. They started new clinic or hospital set-ups in line with the increased revenues.

With the present study, it’s hoped to attract the attentions to strategic leadership styles of managers at the private health care sector during the recent financial crisis. It would be more illuminating if researchers investigate the topic both in other organizational settings and in other sectors.

References


