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Effect of Leadership Style on Perceived Organizational Performance and Innovation: The Role of Transformational Leadership beyond the Impact of Transactional Leadership - An Application among Turkish SME’s-

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Abstract

There has been a great interest in terms of leadership and its effects in organizations. Upon this huge impact this study examines the effect of transformational/transactional leadership on innovation and organizational performance. Data in the study were collected from a sample of managerial staff working in Turkish SME’s. The obtained data were analyzed using SPSS Version20.

Keywords: transformational leadership, transactional leadership, organizational innovation, organizational performance

1. Introduction

Turkey nowadays is experiencing turbulent and uncertain times. The crises that the country has undergone affect both economic structure of the country and also business firms. Under these circumstances focusing on and developing appropriate leadership behavior to manage turbulent and uncertain environment is not very easy. The need
for organizations to respond to the rapidly changing and often conflicting expectations from clients and remain competitive in the current harsh economic environment has resulted in a continuous search for improving performance. In order to help firms, researchers proved that transformational leadership behavior is very effective to improve organizational performance during uncertain environment and to achieve competitive advantage (Nemanich and Keller, 2007). Transformational leadership theory postulates that leaders exhibit certain behaviors that accelerate employees' level of innovative thinking through which they improve individual employee performance, organizational innovation, and organizational performance (Aragon-Correa, Garcia-Morales, & Cordon-Pozo, 2007; Colbert, Kristof-Brown, Bradley, & Barrick, 2008; Piccolo & Colquitt, 2006). To improve the performance, transformational leaders empower employees by providing sufficient autonomy to decide the way to perform job activities, promote organizational learning, and support employees to utilize all the available resources required to improve creativity (Gumusluoglu and Ilsev, 2009).

Various studies have found a relationship between transformational leadership and the efficacy of organizations (Avolio, 1999; Avolio, Bass, & Jung, 1995; Dumdum, Lowe, & Avolio, 2002), and meta-analytic reviews have corroborated positive connections between transformational leadership of superiors and the performance of their subordinates (Judge & Piccolo, 2004; Lowe, Kroeck, & Sivasubramanian, 1996). Since transformational leaders greatly influence employees, whose engagement is enormously required for organizational performance and implementation of innovation, our study focus on the role of this leadership style on organizational performance and innovation. In particular the purpose of the study is to investigate the direct impacts of transformational leadership on organizational performance and innovation after controlling for the effects of transactional leadership behaviors. In this context the study begins with a literature review of transactional and transformational leadership styles, organizational performance, and innovation. The study then will go on to development of hypotheses. Research methodology, analyses results and research model will take place at second section. The results of the analyses will be discussed and recommendation will be provided for managers and academician at the last section.

2. Literature Review And Hypotheses

2.1. Transactional Leadership

Transactional leadership is conceptualized as the exchange relationship between leaders and their followers (Burns, 1978). In transactional leadership, relationship between the leader and follower, is based on contingent reward (Howell & Avolio, 1993).

2.2. Transformational Leadership

Transformational leaders are defined as leaders, who positively envision the future scenarios for the organizations, engage primarily in improving employees’ self-confidence by helping them to realize their potential, communicate an achievable mission and vision of the organizations to employees, and participate with employees to identify their needs and working out collaboratively to satisfy their needs (Peterson, Walumbwa, Byron, & Myrowitz, 2009).

Whereas transactional leadership focuses on the exchange relationship between leaders and followers, transformational leadership moves beyond these immediate self-interests (Bass, 1999). Transformational leadership emphasizes the symbolic behavior of the leader (e.g., inspirational, visionary messages; values) as opposed to economic transactions between the leader and employee (Avolio, 1999; Avolio, Bass, 1985; Judge & Piccolo, 2004). Transformational leaders focus employee attention on the long-term goals of the group or organization, and instill a
sense of higher purpose. Employees internalize the values championed by the leader and come to see their work as congruent with their own self-concepts (Bono & Judge, 2003; Dvir, Eden, Avolio, & Shamir, 2002; Shamir, House, & Arthur, 1993).

### 2.3. Organizational Innovation

Innovation, in particular technological innovation, “is an iterative process initiated by the perception of a new market and/or new service opportunity for a technology-based invention which leads to development, production, and marketing tasks striving for the commercial success of the invention” (Garcia & Calantone, 2002, p. 112).

The ability to innovate is fundamental to sustain competitive advantage (Chen and Huang, 2010 and Subramaniam and Younkt, 2005). Innovation is vital to the survival of modern corporations (Ko, To, Zhang, Ngai, & Chan, 2011). Although corporations often perceive innovation as inherently positive for organizations (Liao & RICE, 2010), the relationship between innovation and performance is still an open question (Bowen, Rostami, & Steel, 2010).

### 2.4 Organizational Performance

In the beginning of 80s, scholars have investigated the impact of leadership and organizational performance, and in particular, Tosi (1982) expected that since transactional leaders highly concentrate on implementing strategies, improving hierarchical structure, and rewarding employee performance and exhibit active management by exception behavior to correct mistakes, they can devote significant contribution to improve organizational performance.

Leadership behaviour in general and transformational leadership in particular has long been considered an important individual factor that influences innovation and performance in the workplace (Keegan and Den Hartog, 2004; Yang et al., 2010).

Further, Waldman, Ramirez, House, and Puraman (2001), based on upper echelons theory, proposed that transactional leadership would be positively related to organizational performance. Lowe, Kroeck, and Sivasubramaniam (1996) found support for this positive relationship through a meta-analysis research study. Apart from transactional leadership, it is strongly predicted that transformational leaders will have significant contribution to improve organizational performance. They encourage employees to take risk, and such risk-taking yields positive effects on performance under uncertain environment (Waldman et al., 2001). They inspire and motivate employees to be innovative and to achieve difficult goals, and they insist employees to approach job problems in all the directions and discourage them using traditional methods to derive solutions. Thus it is predicted that transformational leadership will have strong and positive effects on organizational performance apart from the effects of transactional leadership on organizational performance. Hence,

**Hypothesis 1.** Transformational leadership will have positive effects on organizational performance beyond the effects of transactional leadership.

The strategic literature highlights leadership style as an especially important influence on organizational innovation (Kanter, 1983; McDonough, 2000; Van de Ven, 1986). Broad consensus currently affirms that a collaborative and participatory leadership style (transformational) is more likely to encourage innovation within the organization (Kanter, 1983) than are transactional styles of leadership (Manz et al., 1989).

Several features of transformational leadership are relevant for firm innovation (Gumusluoglu and Ilsev, 2009; Lian Shao, 2006). Transformational leaders have an interactive vision; they pay maximum attention to fostering effective
communication and sharing values (Adair, 1990) and encouraging an appropriate environment for innovative teams (Tushman and Nadler, 1986). All of these features together enable a better understanding of the strong relationships between transformational leadership and the factors positively influencing organizational innovation (Kanter, 1983).

**Hypothesis 2.** Transformational leadership will have positive effects on organizational innovation beyond the effects of transactional leadership.

3. **Methodology**

3.1. **Research Goal**

The main goal of this study is to examine the effect of transformational/transactional leadership on innovation and organizational performance in Turkish SME's. This study highlights the theoretical relationship between transformational/transactional leadership and perceived organizational performance/organizational innovation and later tests empirically which leadership provides significant influence on organizational performance.

3.2. **Sample and Data Collection**

According to the data obtained from Exporters' Association there is 135 SME's in Erzurum. However 118 organizations accepted to participate and fill out the research questionnaire. Data obtained from those 118 organizations were analyzed through the SPSS statistical packet program and proposed relations were tested through correlation and regression analyses.

3.3. **Analyses and Results**

The survey items were developed in English and translated into Turkish. We conducted a pilot-test and asked an expert group to comment on the representativeness and suitability of questions. Comments and suggestions received were then used to fine-tune the presentation the final questionnaire.

Transformational and transactional leadership were measured through the short version of MLQ form (Avolio et al., 1999; Bass & Avolio, 1997). We used 6 items for transformational and 4 items for transactional leadership behaviors. To measure innovation, 4 item-scale of Bono and Judge (2003) was used. A 7-item measure developed by Delaney and Huselid (1996) was used to measure organizational performance. General managers or owners of small service firms were requested to rate the level of their organization's performance over the past 3 years compared to the organizations of the same kind in a 4-point Likert scale ranging from 1 (Worse) to 4 (Much better).

Factor analysis was applied to 4 item for innovation, 7 items for organizational performance, 6 items for transformational and 4 items for transactional leadership behaviors measure using principal components analysis with varimax rotation so as to determine the dimensions. These factors explained 68.6%, 64.72%, 63, 52% and 71.26% of the total variance respectively.

Kaiser-Meyer-Olkin Measure of Sampling Adequacy (KMO) was 0.78 (innovation), 0.89 (organizational performance), 0.74 (transformational leadership) and 0.79 (transactional leadership) and Bartlett’s test of Sphericity classified the data as adequate for analysis [204,085(innovation); 383,883(organizational performance); 418,709(transformational leadership); 220,508 p<0.000(transactional leadership)]. Both Bartlett’s test of Sphericity and measure of sampling adequacy (MSA) ensured that the pre-requisites of factor analysis were met.
Reliability and validity of the instruments

First, the reliability and validity of the questionnaires were analyzed so as to acquire significant outcomes. When analyzed the returned questionnaires, it can be stated that the sample was broadly representative of the population and the sample selection was stringent to ensure generalizability and validity of findings in terms of statistical analysis. The Cronbach’s alpha coefficient was used as the reliability measure.

Table 1. Intercorrelations between transformational leadership, transactional leadership, organizational innovation and organizational performance

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Cronbach’s alphas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transformational leadership</td>
<td>3.3220</td>
<td>1.01968</td>
<td>.883</td>
</tr>
<tr>
<td>Transactional leadership</td>
<td>2.7797</td>
<td>.82571</td>
<td>.865</td>
</tr>
<tr>
<td>Organizational innovation</td>
<td>3.0240</td>
<td>.89429</td>
<td>.844</td>
</tr>
<tr>
<td>Organizational performance</td>
<td>3.4322</td>
<td>.81300</td>
<td>.886</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).

Descriptive statistics, correlations, and Cronbach’s alphas for all scales are reported in Table 1. As seen in Table 1 there is a positive and meaningful relationship between transformational leadership and organizational performance. This means that as transformational leadership increases, organizational performance also increases. Although there is also a positive relationship between transactional leadership and organizational performance, this relationship is not meaningful. In addition there is a positive relationship between transformational leadership and organizational innovation. In other words as transformational leadership increases, organizational innovation also increases. Despite the existence of a positive relationship between transactional leadership and organizational innovation this relationship is not meaningful. Besides there is a positive relationship between organizational performance and organizational innovation. Therefore organizational performance increases, organizational innovation also increases.

Table 2. Results of first regression analysis

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>B</th>
<th>Std. Error</th>
<th>Beta</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>1.797</td>
<td>.374</td>
<td></td>
<td>4.809</td>
<td>.000</td>
</tr>
<tr>
<td>Transformational</td>
<td>.335</td>
<td>.076</td>
<td>.382</td>
<td>4.439</td>
<td>.000</td>
</tr>
<tr>
<td>Transactional</td>
<td>.041</td>
<td>.093</td>
<td>.038</td>
<td>.435</td>
<td>.664</td>
</tr>
</tbody>
</table>

R=.383 R²=.147 Adjusted R²=.132 F= 9.903 p= 0.000

Dependent Variable: Organizational performance

Having satisfactorily understood that there is a significant relationship between transformational leadership, and organizational performance; regression analysis was applied to evaluate the direction of the relationship. For this aim, transformational leadership and transactional leadership were considered as independent variables and organizational performance was treated as the dependent variable. Table 2 summarizes the results of the regression
analysis. Table 2 shows that transformational leadership has significant and positive effects on organizational performance. The equation is significant as a whole and explains 13.2% of the variance in perceived organizational performance. Therefore, H1 is supported. In other words, transformational leadership affects organizational performance to a large extent. But transactional leadership doesn’t have significant effects on organizational performance.

**Table 3. Results of second regression analysis**

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>B</th>
<th>Std. Error</th>
<th>Beta</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>2.053</td>
<td>.339</td>
<td></td>
<td>6.049</td>
<td>.000</td>
</tr>
<tr>
<td>Transformational leadership</td>
<td>.282</td>
<td>.069</td>
<td>.353</td>
<td>4.105</td>
<td>.000</td>
</tr>
<tr>
<td>Transactional leadership</td>
<td>.159</td>
<td>.085</td>
<td>.162</td>
<td>1.880</td>
<td>.063</td>
</tr>
</tbody>
</table>

$R^2 = .385$ $R^2 = .148$ Adjusted $R^2 = .133$ $F = 9.998$ $p = 0.000$

**Dependent Variable: Organizational innovation**

Our second regression analysis shows that transformational leadership has significant and positive effects on organizational innovation. The equation is significant as a whole and explains 13.3% of the variance in organizational innovation. Therefore, H2 is supported. In other words, transformational leadership affects organizational innovation to a large extent. But transactional leadership doesn’t have significant effects on organizational innovation.

4. **Conclusion**

This survey which conducted among Turkish SME’s underlined the positive effect of transformational leadership on perceived organizational performance and innovation. The most important finding of our study is that in spite of a positive relationship between transactional leadership and perceived organizational support/innovation, there exist no meaningful cause and effect relationship between these variables. In other words transactional leadership does not have a meaningful effect on either perceived organizational performance or innovation. On the other hand, as expected, transformational leadership does have a very meaningful effect on both perceived organizational support and innovation. We also found that there exists a positive and significant relationship between innovation and organizational performance. As a result, H1 (Transformational leadership will have positive effects on organizational performance beyond the effects of transactional leadership) and H2 (Transformational leadership will have positive effects on organizational innovation beyond the effects of transactional leadership) are both fully supported. These findings are consistent with the literature on leadership, organizational performance and innovation. Although there are many studies examining several positive effects of transformational and transactional leadership or positive effects of general leadership behavior on perceived organizational performance and innovation (Keegan and Den Hartog, 2004; Yang et al., 2010; Furher et al., 2001; Love et al., 1996; Waldman et al., 2001), there are not many studies concentrating on positive effects of transformational and transactional leadership on perceived organizational performance and innovation. This differentiates our study from others. It is also a very interesting finding that contrary to many other studies we found that transactional leadership has no meaningful effect on either perceived organizational support or innovation.
On the other hand this study is applied on Turkish SME’s and therefore findings may not be transferrable to all types of organizations. Thus further research is needed on other types and large organizations, and also in different countries for the generalizability of the findings. A limitation of our study is that we used a self-reported form for leadership behavior. For future surveys leadership questionnaires can be designed in a way that is asked directly to employees in order to get a more objective result for leadership perception.

References


