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The Impacts of Leadership Styles on Work Performances and Organizational Innovations in the Financial Distress Industry

Shu-Yi HO¹, Hsiu-Jen FU²

Abstract

Enterprises around the world have been facing serious threats from both external environment and internal structure in recent years. Rises in raw material prices and labor costs, plus changes in industrial structure result in financial difficulties that greatly affect enterprises’ profitability. The case of Taiwan’s plush toy industry is studied in this research to probe into the issue of leadership style and see if a leader’s personal style makes a difference in the influence on business operation. It is also worth discussing in depth if organizational innovation and employees’ job performance would be affected. Questionnaires for this research were distributed mainly by e-mail, postal mail, or via other parties for collection of the data required, and the data were analyzed empirically with SPSS18.0. The research results show that both transformational leadership and transactional leadership have positive influence on organizational innovation and job performance. In particular, transformational leadership has a significantly greater influence on organizational performance than transactional leadership. Moreover, organizational innovation also has a positive influence on job performance. In the end, discussions were made based on these results in the hope to provide references for the academic and industrial professionals.

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

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Introduction

Enterprises around the world are facing the impacts of internationalization, informatization, and liberalization in recent years, which lead to ever-escalating social uncertainty and market complexity. Corporate leaders will no longer be able to respond to this volatile environment if they stick to the conventional models. Most organizations see leadership as a source of competitive edge. Leaders play a very critical role in determining the success of an organization. As the environment changes and technology develops, leaders in different positions influence the success of an organization through their behaviors (Zhu, Chew, & Spangler, 2005). Among the numerous factors that affect the success of an enterprise in its future development, leadership is considered the most critical one (Avolio et al., 2003). In theories about leadership, transformational leadership and transactional leadership are most widely studied (Brown & Keeping, 2005; Lowe & Gardner, 2000). Burns (1978) distinguished two types of leadership style: Transformational Leadership and Transactional Leadership. Transformational leaders can clearly communicate a vision to employees, care for the needs and motivation of those being led, and motivate employees with the vision, so that employees may accomplish the organizational goals through mutual growth, transcending their self-interest motivation (Fellows, Liu, & Fong, 2003; Berson & Avolio, 2004; Tyler & Cremer, 2005; Hoogh et al., 2005). Transactional leadership is interest-oriented, and is the most prevalent leadership style, where leaders are related to employees on the basis of mutual interest; leaders accomplish the organizational goals by offering employees material or spiritual satisfaction, such as economic or mental value in exchange (Antonakis, Avolio, & Sivasubramaniam, 2003; Kim & Shim, 2003).

When encountering the globalization and internationalization trends of the 21st century, the key to breaking through the deadlock, improving competitive edge, and boosting operational performance lies in an enterprise’s ability to actively exhibit organizational innovation. Albers & Brewer (2003) pointed out that organizational innovation is the major motive power for the survival of an enterprise, as well as the pre-requisite for its profitability and maintenance of competitive edge (Tsai & Yasi, 2004). By making good use of the professional management experiences via sharing and integration of knowledge, new knowledge can be created to accomplish the objective of organizational innovation. In view of this, enterprises must ensure their organizations are empowered with innovative, flexible, and responsive capabilities in response to the threats against Taiwan’s industrial structure, so competitiveness and financial efficiency can be maintained.

In light of the above literature, it is known that many scholars have, in various perspectives, explored how managers’ style of leadership affects an enterprise’s operation (Silvertorne, 2001). Hence, whether leaders can effectively and efficiently spur employees’ job performance and whether leaders play a critical role in an organization’s development and innovation are very important issues. However, there is little discussion on leadership style’s simultaneous correlation
with organizational innovation and job performance. Therefore, this study takes the example of Taiwan’s plush toy industry, and integrates the four perspectives – transformational leadership, transactional leadership, organizational innovation, and job performance, with empirical analysis conducted by using SPSS 18.0, to find out how leaders may effectively affect the continued innovative activities of an organization, and hence improve job performance or the corporate competitive edge. This is the major research motivation of this study.

According to the above research motivation, this study aims at exploring leadership style’s and organizational innovation’s correlation with and influence on job performance. Therefore, the objectives of this study are: (1) To understand the influence of transformational leadership and transactional leadership on job performance, and it is found that transformational leadership has a greater influence on job performance than transactional leadership; (2) To understand the influence of organizational innovation on job performance; and (3) To understand the influence of transformational leadership and transactional leadership on organizational innovation.

**Literature Review**

**Transformational leadership**

Leadership is the critical power for any organization’s success, whereby the direction and vision for an organization’s future development is planned. It gives impetus to organizational reform and transformation as time goes and environment changes. Bass (1985) distinguished two types of leadership: (1) transformational leadership; (2) transactional leadership. Bass believed that transformational leadership expresses leaders’ feeling for the autonomy and confidence of employees, and the respect for them; leaders can clearly communicate an organization’s goal and vision, inspire employees’ potential, and give individualized care. At the same time, Bass also believed that transformational leadership offers a kind of employee motivation and brings improvement in job performance better than transactional leadership. Yukl (2006) believed employees may feel the leader’s trust under transformational leadership, and may admire, stay loyal to, and respect the leader. Thus, employees will be motivated to show better job performance than originally expected.

Transformational leaders themselves are charismatic leaders and are capable of realizing the vision; they think highly of each employee’s growth, sense of achievement, and needs, encourage employees and create new learning opportunities in order to inspire employees’ high-level potential, and also mediate conflicts between groups (Tyler & Cremer, 2005). Transformational leaders also outline the organizational ideal and vision, through which the organizational common goal can be achieved. Therefore, under transformational leadership,
employees will transform their personal interest, and devote themselves to the pursuit of the organizational vision (Avolio & Berson, 2004). The above literature shows that transformational leadership is a kind of influence, skill, or procedure, where leaders motivate and inspire employees’ potential through the use of authority and convincing power. Personal needs of the organization’s members are satisfied and work efficiency enhanced, so that employees will help improve organizational efficiency voluntarily and earnestly, and devote themselves to the accomplishment of the collective goal. This study adopts the two perspectives – transformational leadership and transactional leadership – proposed by Bass (1985) to examine leadership styles’ correlation with organizational innovation and job performance.

**Transactional leadership**

Transactional leadership was first proposed by Burns (1978), who thinks it is a barter type of leadership based on the concept of interest exchange. That is, the relationship between leaders and employees embodies a negotiation process of interest reciprocation, including interests of economic, political, and mental nature. It stresses the satisfaction of basic and external needs. The relationship is contractual, with an objective of maintaining the organizational culture and stability. Bass (1990) believed that transactional leadership is a leadership style where leaders and employees exchange their needs for the purpose of realizing the organizational goals; employees are urged to work and satisfy their needs in this way; appropriate rewards are offered to increase employees’ work incentive, and hence to achieve their needs; and inappropriate behaviors of employees are corrected and punished. In other words, when employees act in accordance with the leader’s expectation, they will get returns of specified value, and this represents an exchange of value between the leader and subordinates.

Robbins & Judge (2007) defined transactional leadership as an arrangement that establishes organizational goals by clarifying roles and work requirements. Employees are rewarded when they accomplish the work required by the leader, and the leader motivates and guides employees upwards in this way. According to the above literature, in the theories of transactional leadership, leaders control the resources that subordinates want, and require subordinates to meet the organizational work standards via the control and allocation of resources, thereby exchanging it for rewards. In other words, leaders give appropriate recognition and rewards for subordinates’ efforts and accomplishments, and satisfy their needs, so that employees work in accordance with the organizational goals, and leaders win subordinates’ support and respect by doing so. Subordinates’ inappropriate behaviors are corrected and punished, with immediate feedback being given to adjust the discrepancy.
Organizational Innovation

Research on organizational innovation developed rapidly during 1980s. Studies on innovation mostly focused on technological R&D and advancement; that is why “innovation” is often seen as a synonym for “technological innovation”. Discussion on organizational innovation from the perspective of the organization as a whole is rare. Thus, supplement to the theories of organizational innovation and exploration of their implications become even more important. Apart from a steadfast foundation, the most important factor for an enterprise’s survival in the fiercely competitive environment is consistent innovation. Therefore, innovation is a weapon that helps enterprises to maintain their competitive edge, and also the essential condition for sustainable operation (Porter, 1990; Drucker, 1993). Damanpour (1991) believed that organizational innovation refers to innovative practices of an organization on the technology level (products, production/operation process, equipment) and management level (systems, policies, solutions, and services), which enable the enterprise to exhibit a level of performance different from the past. Therefore, an enterprise may create its competitive advantages by sharing new knowledge. These competitive advantages may be in terms of management, products, or manufacturing process, and they are the driving force behind organizational innovation.

The cultivation of organizational innovation capacity that enables an enterprise to satisfy the market demand depends on the continuous learning and growth of its members. Encouraging employees to assist in the design may help promote the continuous renewal of the organization and enhancement of job performance (Laursen & Foss, 2003). In summary, in face of fierce competition and uncertain environment, an organization must elevate its innovative power consistently to keep the continued creation of value and profitability, for the purpose of survival and growth. The objective of organizational innovation lies in enhancing the company’s performance and maintaining the company’s competitiveness. Therefore, enterprises may expect to cut costs, increase organizational work efficiency, boost employees’ morale, and enhance corporate core competence via innovative activities, in order to bring the effect of innovation into play. They may also increase their chance of survival by avoiding being copied or surpassed by competitors when responding to market changes.

Job Performance

Studies on the relationship between human resources management and job performance have been practically verified in enterprises. Yukl (2002) believed that employees’ job performance eventually cumulates to organizational efficiency, particularly the remarkable results created by successful leaders who exert their leadership to consolidate manpower, material resources, and other resources. Therefore, effective leaders can lead employees to higher level of job performance,
and is the most critical factor for the survival and success of an enterprise. Job performance has always been used for measuring the success of organizational innovation initiative or as an indicator in research tools. The better a research tool in accurately measuring job performance, the more it should be adopted by an organization. This approach is closely related to other applications of organizational innovation thereafter.

Brouther (2002) believed that job performance refers to employees’ performance in various tasks of their duties and the extent to which they accomplish the objectives; it determines employees’ potential capacity of development, and thus serves as the basis for an enterprise to make remuneration decisions and consider appropriate promotion, transfer, reward, and punishment. Summarizing the above literature, assessment of job performance not only evaluates and controls employees’ past work accomplishments, but also helps integrate the corporate goals and personal needs through the continuous communication between leaders and employees during the process of assessment; work-related behaviors may be improved at any time, and employees’ work potential may be discovered through job performance assessment, so that people’s talents may be fully exploited and human resources in the enterprise may be brought into full play. Effective training may also be given to employees depending on their specialties and capabilities discovered in the assessment results, and employees are assisted to make their personal career planning. At the same time, job performance assessment allows employees to get a clear vision of objectives and direction for work in the future.

Methodology

Research Framework

This study takes employees in the plush toy industry as the subject to examine the influence of supervisors’ leadership style and organizational innovation on job performance. The following research framework is proposed based on the above literature review:
Research Hypotheses

This study aims at understanding the influence of leadership style on organizational innovation and job performance. The hypotheses are:

H1: Different leadership styles all have positive influence on organizational innovation.
   H1a: Transformational leadership has positive influence on organizational innovation.
   H1b: Transactional leadership has positive influence on organizational innovation.

H2: Organizational innovation has positive influence on job performance.

H3: Different leadership styles all have positive influence on job performance.
   H3a: Transformational leadership has positive influence on job performance.
   H3b: Transactional leadership has positive influence on job performance.

Subject of Study

This research mainly studies the employees in the plush toy industry for understanding leadership styles’ and organizational innovation’s influence on job performance. Secondary data were collected and questionnaires were distributed mainly for employees to evaluate the department heads they serve. Questionnaires were distributed mainly by e-mail, postal mail, and via other parties, to collect the data required for this research through sampling. A total 317 responses were
collected in this study, and 258 were valid responses after deducting 59 invalid responses, representing a valid response rate of 81.39%.

**Research Tools**

As shown in the research framework, variables to be measured in this research include transformational leadership, transactional leadership, organizational innovation, and job performance. There are established scales, developed locally or overseas, available for measuring these variables, and therefore, these scales are referenced and suitable questions are picked from them to be included in the questionnaire design. Measurement tools adopted in this research are explained below:

For the part of leadership style, Bass’ Multifactor Leadership Questionnaire (MLQ) (1985) was translated and edited, and the wordings or text of some questions were modified to form the questionnaire for this study, provided that the original meaning of the questions is not affected. It is an important tool for measuring transformational and transactional leadership, which has been used by many foreign researchers during the past decade. A 5-point Likert scale is used for this part of the scale, where the behavior described in each question is rated on 5 levels, in ascending order, from “Never”, “Seldom”, “Sometimes”, “Often”, to “Always”, with scores of 1, 2, 3, 4, and 5 respectively.

Wang’s scale for measuring organizational innovation (Silverthorne & Wang, 2001) was used for the part of organizational innovation. There are relatively few and simple questions in this scale, which is suitable for employees. Researchers have used it in past studies, and have proven its good reliability and validity.

The scale for job performance was designed based on the evaluation of employees’ job performance in Robbins’ research (1998), which examined employees’ job performance in terms of task outcome, work behavior, and cognitive evaluation. The study showed a good reliability and validity. A 5-point Likert scale is used for organizational innovation and job performance, where behavior described in each question is rated on 5 levels, in ascending order, from “Strongly disagree”, “Disagree”, “Neutral”, “Agree”, and “Strongly agree”.

**Results**

**Reliability and Validity Analysis**

Questionnaire results were tested with the SPSS package. According to Nunally’s view (1978), test results are reliable with validity coefficient above 0.7. Questions with insufficient reliability were deleted. Table 1 shows the Cronbach’s α coefficients for all research perspectives are above 0.9, meaning a very good
reliability level for the research perspectives. Therefore, the research perspectives are highly reliable.

Table 1. Reliability of various perspectives

<table>
<thead>
<tr>
<th>Research perspectives</th>
<th>No. of questions</th>
<th>Cronbach’s α</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transformational leadership</td>
<td>15</td>
<td>0.957</td>
</tr>
<tr>
<td>Transactional leadership</td>
<td>13</td>
<td>0.936</td>
</tr>
<tr>
<td>Organizational innovation</td>
<td>5</td>
<td>0.931</td>
</tr>
<tr>
<td>Job performance</td>
<td>15</td>
<td>0.957</td>
</tr>
</tbody>
</table>

To examine the important determining factors for transformational leadership, transactional leadership, organizational innovation, and job performance, this research is designed to conduct factor analysis for these four perspectives, and orthogonal rotation is done by applying the Varimax. Relatively few principal component factors are extracted with Eigenvalues above 1 and explained variance, resulting in four extracted factors. Factor loadings for all questions are above 0.7, meaning that they could be used for measuring the same perspective factor. Their KMO values are 0.931, 0.910, 0.831, and 0.9015 respectively; Eigenvalues are 9.416, 7.637, 3.925, and 9.452 respectively; and explained variances are 62.78%, 58.74%, 78.49%, and 63.01%.

Pearson Correlation Analysis

Pearson correlation analysis is adopted in this study, and positive correlation is found among the various perspectives - transformational leadership, transactional leadership, organizational innovation, and job performance.

Table 2. Pearson correlation analysis among the perspectives

<table>
<thead>
<tr>
<th></th>
<th>Transformational leadership</th>
<th>Transactional leadership</th>
<th>Job performance</th>
<th>Organizational innovation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transformational leadership</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transactional leadership</td>
<td>0.659**</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Job performance</td>
<td>0.705**</td>
<td>0.594**</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Organizational innovation</td>
<td>0.848**</td>
<td>0.570**</td>
<td>0.589**</td>
<td>1</td>
</tr>
</tbody>
</table>
Multiple Regression Analysis

Regression analysis with transformational leadership as independent variable and organizational innovation as dependent variable shows a significant F value (96.168**), meaning the overall regression model has reached a significant level. Adjusted R2 value is 0.496, showing that this model may explain 49.6% of the organizational innovation. In addition, transformational leadership (β value = 0.705**) is shown to positively influence organizational innovation, and therefore H1a is supported, meaning that transformational leadership has significant influence on organizational innovation.

Regression analysis with transactional leadership as independent variable and organizational innovation as dependent variable shows a significant F value (60.155**), meaning the overall regression model has reached a significant level. Adjusted R2 value is 0.380, showing that this model may explain 38.0% of the organizational innovation. In addition, transactional leadership (β value = 0.617**) is shown to positively influence organizational innovation, and therefore H1b is supported, meaning that transactional leadership has significant influence on organizational innovation.

Regression analysis with organizational innovation as independent variable and job performance as dependent variable shows a significant F value (52.155**), meaning the overall regression model has reached a significant level. Adjusted R2 value is 0.347, showing that this model may explain 34.7% of the organizational innovation. In addition, organizational innovation (β value = 0.589**) is shown to positively influence job performance, and therefore H2 is supported, meaning that organizational innovation has significant influence on job performance.

Regression analysis with transformational leadership as independent variable and job performance as dependent variable shows a significant F value (250.125**), meaning the overall regression model has reached a significant level. Adjusted R2 value is 0.718, showing that this model may explain 71.8% of the job performance. In addition, transformational leadership (β value = 0.848**) is shown to positively influence job performance, and therefore H3a is supported, meaning that transformational leadership has significant influence on job performance.

Regression analysis with transactional leadership as independent variable and job performance as dependent variable shows a significant F value (49.140**), meaning the overall regression model has reached a significant level. Adjusted R2 value is 0.334, showing that this model may explain 33.4% of the job performance. In addition, transactional leadership (β value = 0.578**) is shown to positively influence job performance, and therefore H3b is supported, meaning that transactional leadership has significant influence on job performance.
Discussion

Empirical results of the study show that different leadership styles similarly have significant influence on organizational innovation. Studies of the two perspectives of transformational leadership and transactional leadership point to significant positive correlation both between transformational leadership and organizational innovation, and between transactional leadership and organizational innovation. In particular, the influence of transformational leadership is greater than transactional leadership. That is, the more effective the leadership style, the more beneficial it is to the enhancement of organizational innovation, and the more it is inclined to transformational leadership, which has significant positive influence on improving product and management innovation perspectives in organizational innovation.

Local studies also found that different leadership styles all have significant influence on job performance. Studies of the two perspectives of transformational leadership and transactional leadership point to significant positive correlation both between transformational leadership and organizational innovation, and between transactional leadership and organizational innovation. Similarly, the influence of transformational leadership is greater than transactional leadership. That is, the more effective the leadership style, the more beneficial it is to the enhancement of job performance, and the more it is inclined to transformational leadership, which has significant positive influence on improving job performance. This result is also consistent with other researchers’ findings (Leithwood, Jantzi, & Fernandez, 1994; House, Wright, & Aditya, 1997; Bass, Avolio, Jung, & Berson, 2003). Moreover, organizational innovation also has significant influence on job performance. In other words, the higher the level of organizational innovation, the more it will help enhance job performance. In organizational innovation, the perspectives of product and management innovation have significant positive influence on the improvement of job performance. This result also agrees with the findings of other researchers (Amabile, 1988; Woodman, Sawyer, & Griffin, 1993; Cummings, & Oldham, 1997).

Conclusion

Concluding from the above empirical analysis and discussion, leadership is the most critical power for the success of any organization. It not only drives the reform and transformation of the organization in the ever changing times and environment, but also help plan the direction and vision for the organization’s future development. In other words, leaders give members of an organization a meaningful goal, prompting them to work hard towards the accomplishment
of the goal. It is a process of influencing an organization or group towards the accomplishment of goal, thus creating persistent competitive edge for an enterprise. Researcher’s recommendations on management practices are also proposed to serve as references for the research subject in improving their job performance, hoping that they may be helpful for enhancing operational performance of enterprises.

**Recommendations**

When encountering the volatile 21st century, it is recommended that leaders’ management style should correspond to the rapidly changing competitive environment, and enterprises should reinforce leadership skill training for supervisors. Transformational and transactional leadership styles may be applied alternatively. Vision of the organization should be stated explicitly through encouraging speech and behaviors, and clear communication, so as to inspire subordinates’ passion and optimism, who will then draw on their innovative power continually, and respond to environmental changes effectively to work whole-heartedly towards the goal of sustaining the company’s operation. On the other hand, work content should be reviewed, and marketing survey should be conducted to understand the market trends about the products, so that products will be diversified, comprehensive and innovative. Employees should also be allowed to participate in the formulation of appropriate performance and indicative management systems, thus ensuring their trust and support for the systems, and their willingness to make greater commitment to the company’s goals, and hence the objective of enhancing corporate performance can be achieved.

**References**


