

## Chapter 85

# Analyzing the Effect of Transformational Leadership on Innovation and Organizational Performance

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### ABSTRACT

*The purpose of this study was to analyze the effect of transformational leadership on innovation and business performance, while analyzing other work environment variables such as empowerment and climate for innovation in an integrated model. The employees of a private Nicaraguan company called Casa Pellas participated in this research and 292 online questionnaires were received and analyzed by using Partial least square (PLS) technique. The findings indicate transformational leadership does have a positive and highly significant relationship with empowerment and climate for innovation, which in turn climate for innovation does have a positive and highly significant relationship with innovation. Innovation has a positive and significant relationship with organizational performance as well.*

### INTRODUCTION

As a consequence of increasing global competition, companies must increasingly place more attention on their performance to succeed in the current organizational environment. Today companies are facing global competition, making extremely competitive markets, and creating enormous emphasis on quality for customers, all factors which make achieving positive organizational performance not only a necessity but also a priority. Hence, an improved organizational performance becomes fundamental to achieve for most companies.

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Different models were suggested by researchers who proposed approaches of organizational performance. However, there is no accepted model for a single best measure; thus, the measure of organizational performance was adopted in this research represents the degree to which a company achieved its business objectives (Elenkov, 2002). Moreover, innovation is among the key factors identified to create competitive advantages which, in turn, are linked to organizational performance. Companies achieve competitive advantages through acts of innovation (Porter, 2011). Innovation in the business world is undeniable as well as its role as a powerful force for company's growth.

Here, the role of effective leadership is crucial, influencing followers in a positive way, not only at the individual level but also at the organizational level. Leaders are expected to listen to followers and be responsive to their needs and concerns and include them in decision making, mentoring, coaching, empowering, developing, supporting, and caring – all behaviors deemed necessary for today's effective leaders (Bass & Riggio, 2005). Bass (1985) labeled this type of effective leadership as transformational leadership. A meta analytic review found that transformational leaders may influence organizational performance not only by affecting individual-level and team-level processes and performance but also by affecting organizational cultures, systems, and strategies (Wang, Oh, Courtright, & Colbert, 2011).

## **THE PRESENT STUDY**

The relationship between Transformational leadership in enhancing Innovation (Jung, Chow & Wu, 2003) and unit performance (Howell & Avolio, 1993; Elenkov, 2002) has been addressed in other research; however, these research studies were mainly conducted in countries or settings located in developed countries (i.e., Canada, United States, New Zealand, Russia, Taiwan).

Therefore, the objective of this study is to emphasize the importance of effective leadership linked with innovation and performance. Furthermore, the study will create awareness to companies that take full advantage of this Leadership style and its related behavior on recognized key factors to drive company's growth, such as innovation, while linking organizational performance as a final outcome in a context of developing countries such as Nicaragua.

As for evidence regarding the need to create awareness in those countries about ways to enhance organizational performance, the researchers examined the "Most Admired" ranking developed by *Fortune* which is a well-accepted method for measuring external performance of organizations based on peer review (Rodsutti & Swierczek, 2002). Those companies are the largest US and non-US companies with revenues of US\$10 billion or more; however, only 0.56% of these companies ranked as the most admired companies located in Latin America. Thus, based on this ranking the researchers could say that in Latin America, very few companies fulfill the attributes of outstanding or superior performance.

Additionally, in Nicaragua, one of the priorities for the Directors in 2013 was to handle talent management adequately in such a manner. If it was not properly managed by those senior managers, the risks around talents can severely affect the performance of the organization, causing lack of talents to support investments and implement business strategies (Arias, 2013).

Finally, there have been few researchers who attempted to create an integrated model of transformational leadership, organizational climate's elements, innovation, and organizational performance. The purpose of this article is to predict the influence of transformational leadership style on innovation and organizational performance, while analyzing other variables such as empowerment and climate for innovation.

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