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THE IMPACT OF LEADERSHIP ON ORGANIZATIONAL PERFORMANCE

Literature
reviews

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Abstract

An organization is considered to be effective if it finds the balance between the demands of various stakeholders (owners, employees, customers, community) and the needs of the employees. We believe that an appropriate leadership style can influence and ensure the prosperity and the economic growth of both the organization and employees. Therefore, the aim of the paper is to explore the impact of leadership styles on the organizational performance. Our main focus is on transformational leadership and its role in facilitating the increase in organizational performance. Transformational leaders inspire individuals within the organizations to work harder and to strive for the highest levels of performance. We begin by underlining the connection between transformational leadership and organizational performance, we provide examples on transformational leadership practices' impact the organizations and we conclude by making some future research propositions.

Introduction

It is considered that a company's success is due to organizational performance, employee job satisfaction and employee affective commitment (Bass, Riggio, 2006; Drucker, 2007). Some researchers have suggested that leaders motivate and help their employees to be competitive by using effective leadership styles (Bass, Riggio, 2006; Luftman, 2004). Therefore, the leader's use of effective leadership styles is due to promote standards of excellence in the professional development of the members of the organization (La Rue, Childs, Larson, 2004).

Effective leadership also involves motivation, management, inspiration, remuneration and analytical skills. When all these are present, the organizations record increased employee satisfaction that positively that positively influences the productivity and the profits. The positive effect of leadership on organizational performance was measured by some researchers (Sila, Ebrahimpour, 2005) through human resources (turnover rate and job performance), organizational effectiveness (cost and quality) and financial performance (market share, profit, return on asset).

To increase the organizational performance a leader must have the ability to promote creativity and innovation, stimulate the subordinates to challenge their own value systems and improve their individual performance.

A number of studies on leadership styles (Bass, Riggio, 2006; Kouzes, Posner, 2007, Yukl, 2009) suggest that the practices of the transformational leadership have a positive impact on the organizational performance.

Transformational leadership

Transformational leadership originated with James MacGregor Burns in 1978 (Burns, 1978) and it is characterized by positive, optimistic and trustful leaders who are emotionally intelligent, encourage teamwork, set high expectations and promote innovations.

Transformational leaders change their organization's culture by inspiring a sense of mission and purpose about the importance of the group's work and stimulating new ways of thinking and problem solving. They inspire the individuals within the organization to achieve high performance.

Bass, Riggio (2006) and Dvir, Kass, Shamir (2004) consider that transformational leadership involves the concept of motivation, mutually beneficial goals, emotional bond, common values and vision.

According to Bass and Riggio (2006), transformational leadership is made up of four main parts: charisma, inspiration, intellectual stimulation and individual consideration.

Charisma is central to the transformational process because it develops a connection between leaders and subordinates and the shared mission. It involves gaining trust, respect and confidence of others.

Inspiration. Leaders inspire by communicating the values of the organization with fluency and confidence in a positive manner.

Intellectual stimulation. Leaders give the subordinates the opportunity to perform their work autonomously. The latter use their experience, creativity and innovation to achieve their tasks.

Individualized consideration. The leaders pay attention to subordinate's needs and delegate tasks with guidance, mentoring and coaching.

As Walumbwa, Lawler, Avolio, Wang and Shi (2005) state that leaders use a situational approach to practicing different leadership patterns and styles according to the maturity of the subordinates. Therefore, the maturity level of the subordinate determines the leadership style to be used (Hersey, Blanchard, Johnson, 2001). Thus, the leader may use the following situational leadership styles:

1. telling or directing – the leader uses one-way communication,
2. selling and coaching – the leader uses two-way communication. Both leaders and subordinates agree on what to do.
3. participating – the leader is supportive and works with the subordinates.
4. delegating – there is little involvement from the part of the leader. The subordinates work on their own and are independent.

According to Richard and Clifford (2008), transformational leaders in order to achieve the desired performance: actively engage the subordinates' personal value systems and provide ideological explanations which connect subordinates' identities to the collective identity of their organisation, thus increasing the subordinates' intrinsic motivation to perform their job; articulate an important vision and mission for the organisation, so increasing subordinates' understanding of the importance and values associated with desired organizational performance; raise the performance expectations of subordinates' so increasing their willingness to transcend their self interests in the name of the collective entity.

Scott and Peter (2009) mention that by providing intellectual stimulation, transformational leaders encourage subordinates to adopt generative and explorative thinking process. They stimulate their subordinates to think about old problems in new ways and encourage them to challenge their own values, traditions, and beliefs.

Organizational performance

Organizational performance may be defined as the transformation of inputs into outputs for achieving certain outcomes. With regard to its content, performance informs about the relation between minimal and effective cost (economy), between effective cost and realized output (efficiency) and between output and achieved outcome (effectiveness) (Chen, Barnes, 2006).

There is no general agreement in the literature on the criteria to be used in assessing the organizational performance (Bolman, Deal 2003; DeClerk, 2008; La Rue et al, 2004; Scott, Davis, 2007). However, there are four main dominant approaches:

Goal Approach. People create organizations for a specific purpose which is determined by the stakeholders. The organizational performance is the ability of the organization to achieve its goals.

The System Resource Approach. This approach explores the relation between the organization and the environment. As Boman and Deal (2003) state an organization is performant and effective when it takes advantage of its environment in the acquisition of high value and scarce resources to endorse its operations.

Constituency Approach. According to Agle et al (2006) an organization is effective when multiple stakeholders perceive the organization as effective. The organizations with more control over resources are likely to have the most influence on the performance (Scott, Davis, 2007).

Competing Values Approach was developed by Cameron and Quinn (2006) and it states that organizational goals are created in different directions by the various expectations of multiple constituencies. Therefore, organizations may have different criteria to measure performance. According to Cameron and Quinn (2006) stakeholders support the adaptability of their organizations, they want them to be flexible, stable and effective. A performant and effective organization has a high degree of collaboration and commitment among stakeholders through work groups, team projects and management (Cohen and Bradford, 2005).

For Scott, Davis (2007), the flexibility and the ability of the organization to take advantage of its environment in the acquisition of internal and external resources are indicators of performance, its value being measured by the stock market and it is the key metric to measuring organizational performance.

Other means to increase organizational efficiency and effectiveness include strategic initiatives focused on organizational performance.

Leadership and Organizational Performance

The transformational leader wants to achieve results beyond what is normal and sets higher

corporate goals by inspiring a sense of importance of the team's mission, stimulates employees to think innovatively about a problem or task, and places the group goals over personal self-interest (James, 2005).

Transformational leaders' behaviours are influential in motivating the employees, to make them more aware of the task outcomes, they stimulate their order needs and develop their self – interest for the organization's performance.

In his study on the transformational leadership practices in Russian companies; Elenkow (2002) examined the former impact on organizational performance. Using a Multifactor Leadership Questionnaire, he analysed the leadership behaviour of 253 leaders. The analysis underlined a strong correlation between transformational leadership practices and organizational performance.

In their study on the connection between the transformational leadership style and organizational performance, Zhu, Chew and Spanger (2005) identified within 170 companies from Singapore, a positive relationship between the transformational leadership and the organizational performance. They also demonstrated that effective human resources management arbitrates the relationship between leadership and performance through increased commitment, higher motivation and intellectual motivation.

Moreover, a positive relation between the long-term income growth and transformational leadership was depicted in a study on 94 companies investigating the impact of transformational leadership practices on the financial performance of the organization in terms of profitability, increased sales or revenue and stock measures (Roi, 2006).

Moore (2007) in his research within the United Way of America organization found out that there is a significant positive relationship between female transformational leaders and the revenue element of organizational effectiveness.

In another study on leadership styles and organizational performance, Kieu (2010) on 151 companies from IT industries underlined that transformational leadership relates positively and significantly to organizational performance. The study used a Multifactor Leadership Questionnaire (5X) and it revealed that transformational leadership is a stronger predictor for the performance, satisfaction and commitment within organizations by building commitment, empowerment and demanding a higher degree of respect and trust for the leader.

Intellectual stimulation and inspirational motivation were found to improve the organizational performance (Hancott, 2005). Taking into account that the organizations today have to be performant and to meet the competing expectations of the stakeholders in a manner which

is transparent and ethical, it is necessary that leaders internalize transformational behaviours as the survival of the organizations may depend on it.

Conclusions

Understanding the connection between transformational leadership and the organizational performance is an important factor for the development of effective organizations. Finding the methods to increase the performance of the employees is an important task for today's leaders.

From the literature review, we may conclude that there is a positive correlation between the transformational leadership style and the performance of the organizations.

However, the nature of this relation has not been analysed yet, as well as how and why leadership affects performance. Therefore, future studies may be conducted to address this issue.

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