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The Effect of Leadership and Innovativeness on Business Performance

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Abstract

This study aims to analyze the effect of leadership styles and innovativeness on business performance. Theory and research suggest that both leadership and innovativeness have important consequences for business performance. However this relationship is not the same because of sector, location, size and other variables. The leadership styles undertaken are transformational and transactional leadership. This study is designed as explanatory and its data gathering method is questionnaire. 576 people working in service sector and industry sector from Istanbul comprise the case study. The results show that two leadership styles and innovativeness have positive effect on business performance. It is found that innovativeness, transformational leadership and transactional leadership have higher effects on business performance, respectively.

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1. Introduction

The business performance has been largely examined by scholars. Scholars have studied different variables which have impact business performance. They found that there are many variables which effect business performance such as entrepreneurial orientation (Wales, Parida, Patel, 2013; Alegre,Chiva,2013), information technology (Bharadwaj,2000; Santhanam, Hartono, 2003; Chae, Koh, Prybutok,2014) strategy (Guo and Cao, 2012; Leitner, Guldenberg, 2010; Pandaya, Rao, 1998) and other variables.

Even if there are various variables effecting business performance, leadership style and innovativeness factors have considerable effects on business performance. Because leaders have significant influences over company policies and innovativeness is vital effect on competitive environment. After competition has become a pressure tool for businesses

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all over the world, the subjects of innovativeness and invention have raised its place rapidly and these concepts have secured their position within the scope of business strategies. In addition there is broader literature which has examined with relationship between innovativeness and performance (Erdem, Gökdeniz, Met, 2011; Hog, Ha, 2009). Rubera and Kirca (2012) have examined relationship on firm innovativeness and performance for meta-analytic evidence. According to the study, firm innovativeness indirectly affects firm value through its effects on market position and financial position.

Changes in continuous customer needs and changes occurred in markets based on competition have obliged previous products, services and business models to give their place to new methods and systems. Businesses resisting to innovation have confronted by a problem of performance decrease. At this point leadership approaches, which increase business performance and manage processes of business change and innovation have become a need.

In this context, how do certain leadership styles and innovativeness effect on business performance the sample which was chosen service and industry sector in Istanbul.

Following the introduction, we review the literature analyzing the leadership, innovativeness, business performance and the variables relationship. And then we report the methodology and the results of our study. Lastly we present the concluding remarks.

2. Theoretical Framework

2.1. Leadership

Even though the subject of leadership has been intensively examined especially in the last century, it is still a very little known field (Bennis and Nannus, 1985). Leadership is mostly defined as an ability of inspiring and impressing follower by providing them with the purposes to fight for them (Sichone, 2004:1). According to Firestone (1996), leadership belongs to a specific position and it covers obligatory tasks and functions that businesses have to fulfill in order to live, develop and be efficient. Firestone has split leadership functions into two categories as leadership functions in normal operation and leadership functions in transformation. In these studies, leadership functions in normal operation has been evaluated as support and structure. These functions of leader meeting establishes environment for employees and organizes labour in the process of normal operation. In recent years, transactional and transformational leadership styles have been being examined and taken an interest in scientific studies.

Transactional leadership emphasizes the interrelation between group members and group leader relating to work or task. Since this leadership style is based on work relationship between leader and employee, it is also expressed as transactional, task-oriented or managerial leadership (Koçel, 2011). Besides this transactional leadership is seen to include three factors: (1) contingent rewards based upon specific role and task requirement; (2) active management by exception, which refers to a style of leadership whereby the leader carries out positive supervision of performance to avoid mistakes, and (3) passive management by exception, a style of leadership whereby the leader intervenes only after the appearance of behaviours and mistakes against the requirements (Si and Wei, 2012:301). As a result of these, it can be said that employees can realize their business roles by understanding the expectations of the leader and organization and they will do their best.

Transformational leadership is defined as a loyalty process that realize missions and targets of the organization by making same changes in attitudes of the members of the organization. In this leadership style in the first stage the leader makes the employees understand the result of their work is important. In the second stage the leader unsure to

realize targets of the organization rather than employees' targets. In the last stage it is accepted that the leader is effective to lead employees' needs.

In other words transformational leadership puts emphasis on a leadership style that changes value judgments, beliefs and needs of its followers. This leadership style provides individuals of group to be goal-oriented by creating mission and vision awareness in business. In this way, it increases its followers' self-confidence in reaching goals (Bass, 1990). Moreover transformational leadership is typically characterized as a gathering of four dimensions of leader behavior: inspirational motivation, idealized influence, intellectual stimulation.

At this point, it can be said that transformational leadership creates a vision of change, provides resources, gives individual support and monitors improvements.

2.2. *Innovativeness*

Due to profound changes in the competitive environment, this concept has been taken into consideration many business scholars. Rogers (2003) defines innovativeness as the degree to which an organization is earlier in the adoption of an innovation relative to its peers. This definition conceptualizes meaning of innovativeness as realizing innovation before others. In the guidance published by OECD and Eurostat in 2005, innovation was stated as implementation of practices such as brand-new and developed product, process, marketing method inside and outside of the organization. In a broader meaning innovativeness is not only the creation and capture of new value but also the implementation of new methods in business practices, workplace organization or external relations, and improvement and transformation of managerial mind-sets and business models to cope with changes (Akgün et al., 2014:889). Innovation can be made in products, services, production and distribution methods, organizational methods, marketing and design methods of a firm. These are called as "product innovation", "service innovation", "process innovation", "organizational innovation" and "marketing innovation", respectively (Elçi, 2006:3). This approach classifies innovation depending on the place in which it occurs.

Besides this, some scholars emphasize the importance of leadership for innovation. Madjar and et al. (2002) defines that creativeness of employees can be affected through their leaders' encouragement, support, open communication, feedback efforts (Madjar et al., 2002: 757-767). On the other hand, Nystrom and et al. (2002: 221-247) argue that creativeness occurs at maximum level with democratic and cooperative leadership features in an organic organization structure.

As it is understood from these views, leadership approaches are needed to create work environment supporting innovativeness and properly manage processes in managerial aspects.

2.3. *Business Performance*

The concept of performance describes how individuals or groups reach a conclusion to attain an aim. Performance is a concept which is shown by organization's prominent employees while fulfilling their tasks. This is why organizations' success is directly proportionate to their employees' performance (Benligiray, 2004: 141). Business performance is a description of level of fulfilled task of business's aim or target according to obtained output/conclusion at the end of a business period (Yıldız, 2010:180).

Business performance can be scaled only by subjective method or only by objective method. It can also be seen in the literature that both subjective and objective methods are used together to avoid short-comings of each method. It has become evident that while profitability, sales and market share are the most used criteria in subjective method,

ROA and ROE are the most used ones in objective method (Yıldız and Karakaş, 2012: 1095). Although various measurement methods of business performance has been developed by scholars and practitioners, it can't be said that there is always a valid method.

2.4. Relationships Between Variables

When studies on leadership and business performance are examined; Cummings and Schwab (1973) claim that leadership is the most important variable effecting organization's employees' performance and so, business performance. In a study conducted in sectors different from each other, it is founded that leadership style has a positive effect on wage earners' performance and so, organizational performance (Avolio and Bass, 1995: 199-218).

In a study conducted in manufacturing firms, Noruzy et al. (2013) have found out that transformational leadership has a positive effect on business performance. In a study conducted in logistics companies in Malaysia, Samad (2012) has concluded that transformational leadership has a positive effect on business performance. In a study conducted in small scale enterprises in Nigeria, Obiwuru (2011) has found out that transactional leadership has a meaningful and positive effect on business performance. However, transformational leadership's effect on business performance is not meaningful. Accordingly, Obiwuru (2011) stated that transactional leadership is the most suitable leadership style in small scale enterprises. In a study conducted in public corporations in Kenya by Koech and Namusonge (2012), while relationships between "transformational leadership factors" and "business performance" are extensive and positively meaningful, relationships between "transactional leadership factor" and "business performance" are narrow and positively meaningful. And in this study, meaningful relationship between "Laissez-faire leadership style" and business performance is not observed. In a study conducted in banks in Nigeria by Ojokuku et al. (2012), it is founded that "transformational leadership" and "democratic leadership" have positive and meaningful effect on business performance. In this study, it is also revealed that while "charismatic leadership" and "bureaucratic leadership" have negatively and meaningfully affected business performance, "transactional leadership" and "autocratic leadership" have not meaningfully affected the business performance.

Accordingly, it can be asserted that "leadership styles of leaders" are the determiners of business performance and have a positive effect on the business performance. Thus, the following hypothesis was proposed:

H1: Leadership styles (transformational and transactional) positively affect business performance

When studies on innovativeness and business performance are examined; Brown and McDonnell (1995: 9) state that businesses should improve their existing services and processes to sustain their successful business activities and for this reason, they should meet with innovation processes. In an article about innovativeness and business performance, it is confirmed that innovativeness increases business performance (Hoq and Ha 2009:105) and it is concluded in some studies that innovation ability has a meaningful and positive relationship with business performance (Jong and Vermeulen 2003: 846).

In the study conducted in hotel managements, Erdem et al. (2011) have concluded in that innovativeness has a positive effect on business performance. In a study conducted in Spain, Aragon-Correa et al. (2007) have concluded that innovativeness has a positive effect on business performance. In the study conducted in manufacturing firms, Noruzy et al. (2013) have concluded that organizational innovation has a positive effect on business performance. In a study conducted in logistics companies in Malaysia, Samad (2012) has also concluded that innovativeness has a positive effect on business performance. The study of Ussahawanitchakit (2011) on electronic companies in Thailand

has concluded that both managerial and technical innovativeness have positive effect on business performance. In the study conducted for Canadian SMEs by Raymond et al. (2013), it is concluded that innovativeness capacity of businesses (product innovation and process innovation) has positive effect on business performance (growth and productivity). In a study conducted in Australian SMEs by Terziovski (2010) it is concluded that even though innovation strategy positively affect business performance, innovation culture has no effect on business performance.

It can be said that organizations in a close pursuit of innovations not only provide a competitive advantage but also make improvements in business performance. Consequently, businesses' skill of making innovations is an important part of business performance and it can be asserted that innovativeness has a positive effect on business performance. Thus, the following hypothesis was proposed.

H2: Innovativeness positively affects business performance.

3. Methodology

3.1. The purpose and scope of the research

This research aims to reveal the effects of leadership styles and innovativeness on business performance. 576 people working in service and industry sector as employee and manager in Istanbul comprises the scope of the research. The firms in service sector have covered event and communication agents and the firms in industry sector are manufacturing firms of textile products.

3.2. The type of the research and scales used

The type of research is explanatory research based on cause and effect relation. Data is gathered in the periods of November-December in the year of 2013 to test hypothesis of research with questionnaire method. About leadership 11 questions (Öztop, 2008), about innovativeness 5 questions (Erdem et al. 2001), and about business performance 5 questions (Yıldız and Karakaş) are asked in the questionnaire. To measure business performance of company from the employees were asked to assess the perceptual profitability, sales, market share, customer satisfaction and reputation by means of comparing company's competitors. Other variables' items and statements as it is showed in Table 1. Data gathered has been analyzed by SPSS program. Research hypotheses are tested by regression analysis.

Table 1: Variables Items and Statements

	Items	Statement
Transactional Leadership (TRL)	TRL1	My chief decides what to do and how to do it.
	TRL2	My chief describes the path of the tasks.
	TRL3	My chief maintains the specified performance standards.
	TRL4	My chief schedules the works that will be carried out.

Transformational Leadership (TL)	TL1	My chief encourages the employees and appreciates them.
	TL2	My chief generates a sense of pride and respect on the employees and affects us with an outstanding talent.
	TL3	My chief creates a climate of trust, cooperation, and participation among the employees.
	TL4	My chief treats the employees as individuals, encourages and supports their development.
	TL5	My chief encourages us to take the problems into consideration from a new and different point of view.
	TL6	My chief has a clear vision and imagination about the future.
	TL7	My chief is conclusive about the values and applies what she/ he said.
Innovativeness (IN)	IN1	Our organization often implements fresh ideas.
	IN2	Our organization seeks new ways for the implementation of the works.
	IN3	Our organization is creative in the working methods.
	IN4	Our organization is generally the first in the market with the new products and services.
	IN5	Innovation is accepted as a risk in our organization and it shows resistance to the innovation.
	IN6	Our new products and services introduced to the market have increased over the last 5 years.

In order to measure business performance which is dependent variable in our survey, participants are required to compare their current organizations' present situation with their competitors' depending on profitability, sales, market share, customer satisfaction and reputation.

4. Findings

4.1. Demographic Features

From 576 research participants, 47,7% (275 participants) are women and 52,3% (301 participants) are men. 32,1% (185 people) are at the age of 30 and under, 48,1% (277 participants) are between the age of 31-40, 19,8 % (114 people) are at the age of 41 and over. 43, 8 % (252 participants) are high-school graduate and under, 12,5 % (72 people) are foundation degree, 33,9 % (195 people) are bachelor's degree, 9,9 % (57 participants) are at postgraduate degree education level. 21, 4 % (123 participants) earn 1000 Turkish Lira salary and under, 49, 1 % (283 participants) earn between 1001-2000 Turkish Lira, 29, 5% (170 participants) earn between 2001 Turkish Lira and higher.

4.2. Validity and Reliability Analysis

Expert opinions are taken into account and face validity is used and consequently, some questions are changed. Factor analysis has been carried out for construction validity. Cronbach's Alpha internal consistency coefficients are calculated for reliability.

As it is showed in Table 2, for the variables of the related sample, it can be said that they are valid and reliable (Nunnally, 1978).

Table 2. Validity and Reliability

Variables	KMO	Bartlett Ki-Kare	Sig.	Anti Image	Factor	Variance Extracted	Cronbach Alpha	Items (20)
1. Transactional Leadership	,743	631,430	,000	over 0,5	One	59,958	,773	4
2. Transformational Leadership	,867	1,715E3	,000	over 0,5	One	62,271	,878	6
3. Innovativeness	,813	1,135E3	,000	over 0,5	One	61,320	,839	5
4. Business Performance	,837	1,762E3	,000	over 0,5	One	70,089	,893	5

4.3. Correlation Analyses

Pearson Correlation analysis has been conducted to reveal the correlation between variables. As it is showed in Table 3, between all variables, there are medium level, positive oriented correlations at 0,01 significance level. The highest correlation has occurred at ,672 between innovativeness and business performance .

Table 3. Correlation Analysis

Factors	Mean.	Sd	1	2	3	4
1. Transactional Leadership	4.26	0.55	(.77) ^a			
2. Transformational Leadership	3.98	0.71	.641**	(.88) ^a		
3. Innovativeness	3.79	0.67	.524**	.586**	(.84) ^a	
4. Business Performance	3.91	0.68	.344**	.431**	.672**	(.89) ^a

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

4.4. Regression Analysis

Regression analysis has been conducted to test research hypothesis. As it is shown in Table 4, transactional leadership and transformational leadership have significantly positive effect on business performance. Accordingly, H1 hypothesis has been accepted. Furthermore, the effect of transformational leadership on business performance (.341) is higher than the effect of transactional leadership on business performance (.145).

Table 4. Regression Analysis Regarding Leadership

Independent Variable	Dependent Variable				
	Business Performance				
	B	t	R ²	F	Sig
Transactional Leadership	0.145*	2,391	0.194	68.813	,000
Transformational Leadership	0.341*	7,289			

* p <0,05

Table 5 shows the effect of innovativeness on business performance. According to the table, innovativeness has a significantly positive effect (.678) on business performance. Consequently, H2 hypothesis is also accepted.

Table 5. Regression Analysis Regarding Innovativeness

Independent Variable	Dependent Variable				
	Business Performance				
	B	T	R ²	F	Sig
Innovativeness	0.678*	21,719	0.452	471.735	,000

* p <0,05

4.5. Difference Tests

Transactional leadership, transformational leadership, innovativeness, business performance have not varied by sex ($p > 0,05$). These factors have varied in 4 variables by title. Managers perceive all variables in higher level than employees ($p < 0,05$). 4 variables differ in accordance with sectors. Employees of industry sector have perceived transactional leadership, innovativeness and business performance at a higher level than employees of service sector. However, employees of service sector have perceived transformational leadership at a higher level than employees of industry sector ($p < 0,05$).

5. Conclusion

In this study on employees of service and industry sector in Istanbul, the effect of leadership style and innovativeness on business performance has been examined. Consequently, both transactional and transformational leadership and innovativeness have positive effect on business performance. It is seen that innovativeness, transformational leadership and transactional leadership have more effect on business performance, respectively.

The conclusions related to leadership show exact similarities with the studies of Noruzy et al. (2013), Samad (2012), Koech and Namusonge (2012), the conclusions show partial similarities with the studies of Obiwuru (2011) and Ojokuku et al. (2012).

The conclusions related to innovativeness show similarities with studies of Erdem et al. (2011), Aragon-Correa et al. (2007), Noruzy et al. (2013), Garcia-Morales et al. (2008), Samad (2012), Ussahawanitchakit (2011) and Raymond et al. (2013), the conclusions differ from the study of Santos et al. (2014).

As a conclusion, sense of innovativeness and transformational leadership depending on the sector are suggested to be institutionalized to ensure sustainable competitive advantage in fierce competition environment.

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