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The Influence of Innovation and Transformational  
Leadership on Organizational Performance

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**Abstract**

This paper presents the findings of a study which examined the relationship between innovation, transformational leadership and organizational performance. Further, the study determined the influence of innovation and transformational leadership on organizational performance. Finally the study examined the most important factor that influences organizational performance. Data in the study was collected from a sample of 150 managerial staff in Malaysian logistics companies. The obtained data were analyzed using SPSS Version 18. The study found that transformational leadership and innovation were related to organizational performance. Both transformational leadership and innovation were found to be the significant influence to organizational performance. This shows that transformational leadership and innovation have significantly enhanced the organizational performance in Malaysian logistics companies. This study also revealed that charisma aspect of transformational leadership and product or service in innovation emerged as the most important factors that influence performance of organization. Findings, implications and recommendations for future research from this study are discussed.

**Keywords:** *Transformation Leadership, innovation and organizational performance*

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**1. Introduction**

Innovation and leadership are topics of interests among scholars and practitioners that play significant impact towards competitive advantage and organizational performance [1] and [2]. Scholars have been highlighting questions whether innovation and leadership foster superior performance and whether past performance is driven by innovation and leadership. Thus unravelling the link of innovation, leadership and organizational performance has compelled scholars to conduct further research in this area. Several studies have reported the linear relationship between innovation and organizational performance but the results remain inconclusive. Some studies indicated positive relationship [3], negative [4] and no significant relationship [5] between innovation and organizational performance. Organizations are also vulnerable to various factors [1]. This implies that innovation is not the only factor that influences organizational performance. Internal and external factors are sources of competitive advantage that lead to organizational performance [1]. In recent years, researchers have called attention to the importance of organizational resources such as leadership capabilities for organizational performance. However the effects of certain leadership style on organizational performance have not well studied [6]. [7] Suggested further research need to be carried to examine the relationship of leadership styles on organizational performance. This is because it is widely accepted that leadership style and its different dimensions can drive organization destinies [8]. Based on the above articulations and less critical literature exploring on the relationship of innovation, leadership

style and organizational performance particularly in Malaysian logistics companies, this study attempted to unmask the unaddressed questions.

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The purpose of this paper is to provide empirical evidence of the relationship between innovation, transformational leadership and organizational performance. It also attempts to examine the influence of innovation and transformational leadership on organizational performance.

### *1.1 Literature Review*

Among the most popular and frequently raised question by scholars in organization's strategic management is firm's difference performance and to achieve superior organizational performance [9]. Superior performance refers to sustained performance, in this context refers to superior performance of market share for example in terms of employee performance, customer satisfaction and financial performance such as return of investment and shareholder wealth creation. There are several paradigms for clarifying superior performance of an organization [10]. One of the paradigms is through the application of Resource Based View (RBV) theory. RBV suggests that organizations are fundamentally idiosyncratic, and over time accumulate unique combinations of resources and skills which allow them to garner rents on the basis of "distinctive competence" [11].

RBV highlights the need of resources to have unique characteristics to allow organizations achieve their competitive advantage. Among the unique and important characteristics of resources as suggested by [12] are valuable, rare, difficult to imitate, non substitutable and imperfectly mobile. [12] relates resources as a bundle of for example assets, capabilities, organizational processes, organization attributes, information and knowledge. Assets can be defined and classified in various forms that include tangible, intangible and personal based resources. Although this classification is rather ambiguous [13] and the explanation of organization's resources could be open ended [14], however Hooley [15] have classified resources based on the following: 1) assets a) tangible (land, plant and machines and people), b) intangible – procedure and systems, knowledge, brands and reputations; 2) Capabilities – a) individual or human capital (customer care, individual or group learning organization and leadership skills) b) group (examples: customer orientation, group learning and interpersonal skills) and corporate (examples: market orientation, organization learning, portfolio management, innovation and planning processes). In this study the resources are the individual capabilities in terms of innovation and leadership that lead to organizational performance.

#### *1.1.1 Innovation*

Innovation has been defined in various perspectives according to which analysis is used. [16] suggested that the more macro the approach tends to encourage more variety of definitions. [17] relates innovation in an organizational context that includes implementation of ideas for restructuring or saving costs, improved communication, new technology for production processes, new organizational structure and new personnel plans or programmes. Innovation according to [16] is the intentional introduction and application within the role, group or organization of ideas, processes, products or procedures, new to the relevant unit of adoption, designed to significantly benefit the individual, the group, organization and society. This implies that the context where the new idea, product, service and activity are implemented will determine if it can be considered as an innovation within the certain specific context [18].

Innovation has been researched and measured from various perspectives and interpretations. [19] measured innovation based on innovation efficiency and innovation efficacy. Innovation efficiency refers to the effort carried out to achieve the degree of success. Innovation efficacy refers to the degree of success of an innovation. [20] measured innovation among hotel managers and customers based on three main dimensions: process innovation, product innovation and administrative innovation. Although this measure is widely applied no study has been done to link innovation measure and organizational performance from this perspective in Malaysian logistics companies. This study attempts to explore this issue.

### 1.1.2 Leadership styles

Leadership has been discussed based on various perspectives. [21] classified leadership styles in the following categories: 1) concern for task which is also referred as result oriented; 2) concern for people or person centered or employee oriented; 3) directive leadership or authoritarian leadership or autocratic leadership; 4) participative leadership or democratic leadership; 5) transactional leadership and (6) transformational leadership. Despite various leadership styles according to [21] transformational leadership styles had received much attention. Continuously, most scholars are in agreement that there is no single leadership style that indicates the most appropriate style to all situations.

[22] views leadership based on four paradigms: classical, transactional, transformational and organic leadership. Classical thinking of leadership style refers to how the decisions are made and based on behavioral perspective. It consists of three major leadership styles: authoritarian leadership, participative or democratic leadership and delegative or laissez faire leadership [23]. Transactional leaders organize the subordinates' tasks so that their job are carried out efficiently. [24] suggested transactional leadership as the core component of effective leadership behavior that could influence organizational performance.

Transformational leadership is characterized by charisma (idealized influence), inspirational motivation, intellectual stimulation and individualized consideration. Transformational leaders integrate creative insight, persistence and sensitive to the followers. The role of transformational leader is to develop and inspire the subordinate to be more responsible and committed to the challenging goals. This visionary leader inspires and activates employees to perform beyond normal procedure and depends on the vision presented by the leader. The fourth paradigm is organic leadership which is based on teamwork without formal distinction between leaders and followers. Members of the team are working together in whatever roles of authority and power they may not be based on position of power [25]. Based on the unique and important characteristics of transformational leadership, this model is chosen in this study. Moreover [23] suggested that transformational leadership is one of the important elements of successful leadership behavior to achieve organizational performance.

### 1.1.3 Innovation and Organizational Performance

[26] suggests that intense international competition, fragmented and demanding markets and diverse and rapidly changing technologies play key role in shaping today's global and dynamic competitive environment and product innovation. Companies' ability to offer products, services and ideas that meet the needs of customers and market product more efficiently and faster than their competitors are in better position to create competitive advantage [27]. Literature reported that competitive advantage's outcome of organizational performance is influenced by resources. One of the resources is innovation capability [15]. This term according to [28] captures the newness of an idea for organizational performance. This implies that innovation plays a key role in improving organizational performance. [11] highlighted that innovation will generate new, valuable, rare and inimitable resources within the firm that are difficult to imitate. [29] found that innovation leads to enrichment of a firm's strategic resources and sustainable competitive advantage an important aspect for organizational performance.

Previous research findings on the link between innovation and organizational performance have revealed mixed results. [30] found the decline of organizational performance was due to innovation. Previous literature highlighted the link between innovation and organizational performance based on the arguments in terms of: 1) interpretation of innovation - managers may frame innovation as opportunities and develop a willingness to adopt risky innovation [31]; 2) organization performance may generate future organizational slack that is used for exploration of new alternatives [32] and 3) Low performance may be due to insufficient resources, motivation and cognitive capacity [33]. Innovations and organizational performance have been measured based on various perspectives [34]. Common categorizations of innovation include product, process or administration innovation; incremental and architectural or radical innovation; the stages of innovation, the level of analysis, the types of innovation and the scope of innovation [35]; [36] and [29]. It is therefore a study needs to be done to link innovation and organizational performance. This study highlights the theoretical relationship between innovation and organizational performance and later test empirically which innovation aspect provides significant influence on organizational performance.

### 1.1.4 Leadership Styles and Organizational Performance

Leadership has been a frequently repeated issue for academicians and practitioners and widely researched by scholars. Numerous studies have found that leadership has a positive effect on organization performance despite a significant impact and influence on individual and organizations. [37] stated that leadership style and behaviors of individual may contribute to important subordinates' outcomes such as performance, satisfaction and perception towards leaders' effectiveness. Although literatures have revealed the significant influence of leadership styles on organizational performance, in recent years, the focus of the leadership studies have been shifted and accompanied by the acceptance of the distinction between classical, transactional and transformational leadership. According to [38], transactional and transformational leadership styles have been found to be related to employee satisfaction and performance, organizational effectiveness, employee turnover and customer satisfaction.

[26] argue that companies may face difficulties to proportionate their internal resources and capabilities. Further, organizational dedication is the critical success factor in generating the internal capabilities and resources and organizational performance. Creating such organizational intent or vision to achieve organizational performance require strong leadership [39]. This is without exception in Malaysian logistics companies. It can be implied that Malaysian logistics companies in particular also must continually exceed customers' expectations and discover the basis of its competitive position. Additionally, leaders in Malaysian logistics companies must have a clear vision of the current and future directions, strategic vision and a sense of what resources and competencies are highly required, knowledge that is needed by the company and a vision of how to get where the company is supposed to go. Further, the Third Malaysian Industrial Master Plan highlights the need to provide leadership in overall development of the logistic industry. [24] suggests that leadership and a company's vision become the catalyst that harnesses the power of market place and organizational performance. Thus, leading and managing such a diverse workforce and challenging environment are among the critical factors in determining a high performance of Malaysian logistic companies. [25] suggested that transformational leadership is the core component of successful leadership behavior to influence organizational performance. With this notion this study attempts to link transformational leadership and organizational performance.

Although many studies have addressed leadership styles and their outcomes, the results have not been conclusive. [40] for example found a positive and significant relationship between transformational leadership style and followers' commitment, satisfaction and organizational performance. [41] share the same view that transformational leadership is more effective than transactional leadership for organizational improvement. [42] argue that the participative style is more productive in any culture and environment. [43] conclude that there is no best leadership style in all situations and it is difficult to determine the best leadership style for organizational performance.

Preceding discussions indicate that previous research findings on the link of innovation, leadership and organizational performance have been inconclusive. Thus, conflicting research findings may be experienced by Malaysian companies. Further less research has been done in Malaysia in this area especially in logistics industry whereby [44] has suggested the need to have more research on various perspectives of organizational outcomes such as organizational performance. Thus the following hypotheses were proposed in this study:

- H1: There is a positive and significant relationship between innovation and organizational performance.
- H2: There is a positive and significant relationship between transformational leadership and organizational performance.
- H3: Innovation will influence significantly on organizational performance and
- H4: Transformational leadership will influence significantly on organizational performance.

## 2. Material and Method

### 2.1 Sample, Procedure and Measurement:

Participants in the study were managerial staff in Malaysian logistics companies. 200 self administered questionnaires were distributed to the staff of the selected logistics companies obtained from the Federation of Malaysian Manufacturers (FMM). 150 useable questionnaires were used in the statistical analysis representing a response rate of 75% from the sample. The selection of the

respondents was based on the random sampling. The independent variables of the study were innovation and transformational leadership style. Transformational leadership style consists of 16 items and was measured based on four transformational leadership aspects (charisma, inspirational motivation, intellectual stimulation and individual consideration) developed by the author and adapted from [45]. Respondents were asked to response to the questionnaires on a range from 1 = strongly disagree to 7 = strongly agree. The reliability coefficient for all components of leadership styles is .92. Innovation was measured based on 15 items based on dimensions of process innovation, product or service innovation and administrative innovation with reliability test of .90. Respondents were asked to respond to the questionnaires on a range from 1 = strongly disagree to 7 = strongly agree.

The dependent variable was organizational performance which consists of seven items, were measured based on non financial aspects: employee satisfaction and customer satisfaction. The questionnaire was developed by the author and adapted from [45] and [46]. The response options for employee satisfaction and customer satisfaction items were based on a 7 point Likert-scale ranging from 1= strongly disagree to 7= strongly agree. The reliability coefficient for overall organizational performance components was .95. The reliability coefficients of the variables in this study concurs with [47] minimum acceptable level of 0.70.

2.2 Findings and Analysis:

In terms of age the average age of the respondents was 35 years, while the mean age of their experience in organization was 15 years and experience with the current job was 6 years. Regarding gender, 70% of respondents were male while female were 30%. Majority of the respondents (80%) were married while 20% were not married. In terms of position, 40% of the respondents were from senior level of management and 60% were middle level of management.

2.3 The Relationship of Innovation, Transformational Leadership Sand Organizational Performance (H1 and H2)

Table 1 presents the correlation analysis of the study variables. The results found that all of the independent variables are positively correlated with organizational performance.

Table 1: Correlation Coefficients of the Main Variables

Num	Variables	1	2	3	4	5	6	7	8
1	Process innovation	.87							
2	Product/service innovation	.25*	0.82						
3	Administrative innovation	.43*	.45*	.95					
4	Charisma (idealized influence)	.49*	.23*	.56*	.81				
5	inspirational motivation	.54*	.46*	.26*	.38*	.86			
6	intellectual stimulation	.49*	.53*	.61*	.49*	.38*	.89		
7	individual consideration	.41*	.62*	.37*	.42*	.48*	.46*	.87	
8	Organizational performance	.53*	.35*	.42*	.34*	.20*	.45*	.38*	.95

\*p = 0.05 (Alpha reliability values are shown on the diagonal)

This correlation analysis also revealed that all aspects of innovation and transformational leadership are correlated to each other and are positively related with organizational performance. Thus, all of the hypotheses (H1 and H2) were accepted. The study concludes that all aspects of innovation and transformational leadership significantly enhance the organizational performance of Malaysian logistics companies. Examining the relationship of each variable, the analysis reveals that the strength of the relationship ranges from low to moderate, positive and significant relationship. As can be seen in Table 1, there is no issue of collinearity problem in this data as the correlations between the independent variables are not high. This implies that a multiple regression analysis can be carried out to answer the H3 and H4 the study.

2.4 The Influence of Innovation on Organizational Performance (H3)

Table 2 presents the results of regression analysis to answer the hypotheses H3 and H4 of the study. In order to answer the hypothesis H3 of the study all of the innovation components were regressed with organizational performance. As can be seen on Table 2, the  $R^2$  value was .23 indicating that 23 percent of variance in organizational performance was explained by Process, product or service and administrative innovation. Examining each of the innovation component as shown in Table 2, all of the innovation components had a positive and significant effect on organizational performance (process  $\beta = .32$ , product or service,  $\beta = .50$  and administration,  $\beta = .27$ ). This result revealed that the data provided support for the hypothesis H3 of the study. Thus the H3 of the study was accepted. Among the innovation components, product or service ( $\beta = .50$ ) emerged as the most important factor that contributes to organizational performance.

Table 2: Influence of Innovation and Transformational Leadership Styles on Organizational performance

Dimensions	Organizational performance				
	Std $\beta$	t	$R^2$	f	P
Innovation:			0.23	102.82	.000*
Process innovation	.32	2.55			.000*
Product/service innovation	.50	3.04			.002*
Administrative innovation	.27	1.23			.000*
Transformational styles:			0.50	98.28	.000*
Charisma(idealized influence)	.49	3.36			.000*
inspirational motivation	.21	1.49			.000*
intellectual stimulation	.44	1.96			.000*
individual consideration	.38	1.60			.000*

\* $p = 0.05$

### 2.5 The Influence of Transformational Leadership on Organizational Performance (H4)

Hypothesis H4 of the study was to examine the influence of four transformational leadership aspects (charisma, inspirational motivation, intellectual stimulation and individual consideration) on organizational performance. In order to answer the hypothesis H4 of the study the same procedure was employed as to answer the hypothesis H3. Accordingly all of the transformational leadership components were regressed with organizational performance.

From Table 2, when all of the four aspects of transformational leadership style were regressed with organizational performance, the  $R^2$  value was found to be .50. This shows that 50 percent of the variance in organizational performance was explained by the four transformational leadership components. The beta values as indicated in Table 4 shows that all of the transformational leadership aspects (charisma,  $\beta = .49$ ; inspirational motivation,  $\beta = .21$ ; intellectual stimulation,  $\beta = .44$  and individual consideration,  $\beta = .38$ ) had a positive and significant effect on organizational performance. This data provides support for the hypothesis H4 of the study. Therefore, the H4 of the study was accepted and was fully supported. Among all of the four transformational leadership aspects, charisma was perceived by respondents as the most significant influence on organizational performance with beta value of .49. This shows that charismatic aspect of leadership emerged as the most important factor to improve organizational performance. [50]

### 3. Conclusion, Implication and Recommendation

The purpose of this study was to determine the relationship between innovation and transformational leadership styles and organizational performance. Further, it examined the influence of each innovation and transformational leadership components on organizational performance. The results found that based on the correlation matrix all of the innovation components and transformational leadership aspects were positively related to organizational performance. Multiple regression analysis revealed that both innovation and transformational leadership variables had a positive and significant influence on organizational performance. This implies that all of the innovation and transformational leadership components emerged as the contributing factor and play important roles in enhancing organizational performance.

Findings of this research highlight the importance of transformational leadership and innovation as the key component of internal resources in securing competitive advantage and achieving organizational performance in Malaysian logistics companies. [48] suggest that a logistics champion can make a positive difference and those who have a logistics champion on board will reap powerful benefits in terms of growth, competitive advantage and true logistics excellence. This scenario is in tandem with the entrusted responsibilities under the Third Malaysian Industrial Master Plan (IMP3) which require superior leadership in the overall development of the logistic industry besides coordination and implementation of policies and programmes [49].

Previous literature in strategic management has extensively emphasized on the role of organizational capability in terms of leadership and innovation in companies' effort of gaining competitiveness. RBV theory that has been suggested in this study plays key contribution towards this direction and in the context of gaining competitive advantage in Malaysian logistic industry. This theory emphasizes on the strategic role of leadership and innovation for organizational competitiveness performance.

Results from this study are applicable for practical and theoretical purposes. Since previous studies were regularly conducted in western setting, the findings suggest that the similar study could also be valid in a non-western setting and the findings found in a certain society might be evident in a different society. For purposes of generalizability further study can be validated by using different samples and approaches in a variety of settings.

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