

# Effects of Leadership on Organizational Performance

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*Abstract:* - The main aim of any organization is to sustain competitive advantage and considered to be effective between the demands of various stakeholders and the needs of the employees. Based on the previous studies in related field, it has been demonstrated that an appropriate leadership style can influence the success and the economic growth of both the organizations and employees. Therefore, the purpose of this paper is to explain the effects of leadership styles on the organizational performance. Our main focus is on transformational leadership and its role in enabling the increase in organizational performance. We start by underlying the link between transformational leadership and organizational performance and clarify the effects of leadership style on organizational performance and conclude by making some future research propositions.

*Key-Words:* - Leadership style, Transformational Leadership, Organizational Performance

## 1 Introduction

The aim of any organization is to survive and sustain its presence by improving performance. According to Arslan & Staub (2013) with the aim of meet the needs of the highly competitive markets, organizations should increase their performance. As said by earlier researchers such as (Peterson, Smith, Martorana, & Owens, 2003) the role of leadership is critically important for achieving the performance of organizations.

On the other hand, it is considered that a company's success is attributable to organizational performance, employee job satisfaction and employee affective commitment (Bass & Riggio, 2006)(Drucker, 2007). Some studies have suggested that leaders motivate and help their employees by using effective leadership styles to be competitive (Luftman, Bullen, Liao, Nash, & Neumann, 2004). Consequently, due to promote standards of quality in the professional development of the employees of the organization the leader must use the effective leadership styles (LaRue, Childs, & Larson, 2006). A number of studies on leadership styles (Kouzes & Posner, 2007)(Yukl, 2009) propose that the performs of the transformational leadership have a positive effect on the organizational performance.

## 2 Transformational Leadership

Transformational leadership initiated with James MacGregor Burns in 1978 (Burns, 1978) and it is categorized by optimistic, trustful and positive leaders who are emotionally encourage teamwork and set support innovations. According to Dvir, Kass, & Shamir (2004) transformational leadership includes the concept of mutually beneficial goals, motivation, emotional connection, vision and common values.

Transformational leadership helps organizations attain their current objectives more proficiently by linking job performance to valued rewards and by ensuring employees have the resources needed to get the job done. Transformational leaders create a strategic vision, communicate that vision through enclosing and use of symbol, model the vision by "walking the talk" and acting consistently, and build commitment towards the vision (Avolio, Bass, & Jung, 1999)(McShane & Von Glinow).

Based on prior empirical research and Meta analyses the transformational leadership has a positive effect on individual performance and organizational outcomes (Howell & Hall-Merenda, 1999). Most recently, many empirical studies have reported that transformational leadership has a positive impact on follower performance and firm outcomes (Bass, Avolio, Jung, & Berson, 2003) (Jung & Sosik, 2002)(O. F. Walumbwa, 2002).

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

*Charisma.* It includes achieving trust, respect and confidence of others and it is vital in the transformational process because it develops a link between leaders and subordinates and the shared assignment.

*Individualized consideration.* The leaders follow the subordinate's desires and give tasks with guidance, mentoring and coaching.

*Intellectual stimulation.* Leaders give the subordinates the opportunity to perform their work separately. They later use their experience, creativity and innovation to achieve their tasks.

*Inspiration.* Leaders inspire by interactive the values of the organization with facility and confidence in a positive way.

As Walumbwa, et al. (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 (Paul, Blanchard, & Johnson Dewey, 2001).

### 3 Organizational Performance

According to Chen, et al. (2006), organizational performance means 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 the outcome (effectiveness)".

According to Bolman & Deal (2003), DeClerk (2008) and Scott & Davis (2015), there is no general agreement in the literature on the standards to be used in measuring the organizational performance. 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 discovers the relation between the organization and the environment. As said by Cutler et al. (2003) an organization is effective when it takes advantage of its environment in the attainment of high value and rare resources to approve 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.* It was developed by Cameron and Quinn (2006) and it states that organizational goals are created in different ways by the various expectations of multiple districts. Therefore, organizations may have different criteria to measure performance. According to Cameron, et al. (2014), stakeholders support the adaptability of their organizations, they want them to be flexible, stable and effective. According to Cohen & Bradford (2005), a performant and effective organization has a high degree of collaboration and commitment among stakeholders through work groups and management.

### 4 Leadership and Organizational Performance

Leadership is one of the vital factors for improving firm performance. Leaders, as the key decision-makers, determine the acquisition, development, and deployment of organizational resources, the conversion of these resources into valuable products and services, and the delivery of value to organizational stakeholders. Thus, they are strong sources of managerial and sustained competitive advantage (Avolio et al., 1999)(Rowe, 2001).

Numerous studies have stated positive relationships between transformational leadership and outcomes at the individual level and firm levels (Avolio 1999)(Kirkpatrick & Locke, 1996). Likewise, a number of relative studies (Waldman, Ramirez, House, & Puranam, 2001) have also reported that transformational leadership behaviors are more positively related to subordinate effectiveness in a variety of organizational settings than are transformational behaviors. The transformational behavior of leaders influences employee's motivation to make them more aware of their duties outcomes

and develop their self-interest for the organization's performance.

As stated by Zhu, et al. (2005), in their study on the connection between the transformational leadership style and organizational performance, they 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.

Kieu (2010) emphasized that transformational leadership relates positively and significantly to organizational performance based on 151 companies from IT industries. The study used a Multifactor Leadership Questionnaire (5X) and it exposed that transformational leadership is a stronger analyst 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). Based on the studies on leadership style and organizational performance the organizations today have to be performant and to meet the competing expectations of the stakeholders in a manner which is obvious and ethical, it is necessary that leaders adopt transformational behaviors as the survival of the organizations may depend on it.

## 5 Conclusions

Intended for the development of effective organizations, understanding the connection between transformational leadership and the organizational performance is an important factor. On the other hand, finding the approaches and methods to develop the performance of the employees is an important duty for today's leaders. From the literature review, as a result, there is a positive relationship between the transformational leadership style and the performance of the organizations. However, the nature of this relation has not been analyzed yet, as well as how and why leadership affects performance. For that reason, future studies may be conducted to address this issue.

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