

THE EFFECTS OF TRANSFORMATIONAL LEADERSHIP ON ORGANIZATIONAL PERFORMANCE - A THEORETICAL APPROACH

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ABSTRACT

Nowadays, managers have to face the complexity of the technological and informational environment, social change, increasing entrepreneurial activity, accelerating technological developments and a more educated and skilled workforce. Leadership has become a critical element in the success of an organization. Transformational leaders generate a greater involvement in the work of subordinates. This involvement results in higher efficiency and satisfaction leading to managerial and organizational performance. In theory, transformational leadership is positively correlated with a variety of organizational outcomes. From a theoretical point of view, the literature offers empirical evidence and reinforces the assumption that transformational leadership generates positive results within organizations. This paper aims to treat the concept of transformational leadership and to analyze existing approaches and studies in the literature. The main objective of this study is to present the evolution of transformational leadership by examining additional factors that have an impact on this leadership style. The research methodology of the paper is based on literature review and on the analysis of various studies and relevant findings in the field.

KEYWORDS: *transformational leadership, organizational performance, transformational leadership*

JEL CLASSIFICATION: *M14*

1. INTRODUCTION

The literature in the field of leadership is vast and continues to expand rapidly due to a great interest in the leadership phenomenon from researchers and practitioners. The personality traits of a leader and social behavior have occupied the scientific world for more than a century. These concerns, initially addressed in disciplines such as psychology, philosophy, sociology, and later management, proved to be incomplete in the absence of an interdisciplinary approach. Although many leadership theories have been developed and studied excessively, the transformational leadership style has become the most commonly researched over the last two decades (Avolio et al., 2009; Judge & Bono, 2000) due to the influence on increasing positive attitudes and the level of performance of subordinates.

Transformational leaders emphasize important behaviors, including motivating subordinates to set challenging goals, giving them the confidence they need to meet their expectations and fully meet their potential (Bass & Avolio, 1993). Transformational leadership has been defined as "the leader's behavior that transforms and inspires subordinates to act and exceed their expectations as they transcend personal interest for the good of the organization" (Avolio et al., 2009).

Based on the literature, the objectives of the current research are:

- identifying the factors that facilitate or inhibit transformational leadership;

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- detailing the basic concepts encountered in the literature, emphasizing the delimitation between the concepts of transformational leadership and transactional leadership;
- identifying models of transformational leadership assessment.

2. WHAT IS TRANSFORMATIONAL LEADERSHIP?

Bass (1985) described transformational leadership as a process by which leaders and subordinates help each other to advance to a higher level of motivation and morality. Because of the impact that transformation leadership generates on personal and organizational outcomes, it is considered necessary in organizations from different domains (Tucker & Russell, 2004). The main purpose of these leaders is to change the organization's current structure and inspire employees to consider a new vision which has new opportunities (Tucker & Russell, 2004) for the individual, but also the organization as a whole. Bass (1985) has shown that transformational leaders can appear in times of development, change, and crisis. According to Avolio and Bass, transformational leaders can be more readily accepted in organizations that face dynamic markets and technology that is changing at a rapid pace.

Research has shown that transformational leadership involves satisfaction (Hatter&Bass, 1995) as well as commitment of employees to the organization (Barling et al., 1996). Transformational leadership also has an impact on the commitment to organizational change (Yu, Leithwood & Jantzi, 2002), but also on organizational conditions (Lam et al., 2002).

The transformational leader increases individual needs and desires to achieve more, to work at a more sustained pace, leading to the extra effort and performance of subordinates (Howell and Avolio, 1993). Numerous studies have demonstrated that transformational leadership is positively linked to personal results (Dumdum et al., 2013). The relationship between transformational leadership and personal results, such as satisfaction and commitment at work, is evident in Bass and Avolio's research (1999). Other research has shown that this style of leadership has a direct influence on organizational behavior and performance (MacKenzie et al., 2001).

Bass Bernard has theorized that transformational leadership creates employees who are altruistic, faithful and connected to the goals of the organization. These employees often go beyond what they are expected to (Bass, 1985) in their job descriptions. Zaccaro and Banks, (2001) conducted several studies to show a positive relationship that exists betwixt transformational leaders and organizational vision.

The culture of an organization is heavily influenced by leadership (Girneata & Potcovaru, 2015). Bass and Avolio (1993) argued that leadership and culture are so well interlinked that it is possible to describe an organizational culture through its transformational qualities. According to Bass (1985), transformational leaders are concerned about changing organizational culture and personal development of subordinates. According to Bass and Avolio (2004), for an organizational culture to become more transformative, its top management needs to express the vision clearly and make the necessary changes with determination.

Authors such as Nguni et al., (2006), Emery and Barker (2007) have shown that workplace satisfaction is positively correlated with transformational leadership. Morrow has suggested that the transformational leader will help promote employees' professional skills, organizational involvement, self-determination, delegation, and self-realization. If leaders and followers can trust each other and help each other, this will generate greater recognition of organizational goals and values. Subordinates will make every effort to organize and maintain a good relationship with each other. Therefore, the degree of job satisfaction can be promoted by transformational leadership.

Transformational leaders will motivate followers and lead them to achieve the group's performance according to their own interests. Thus, the followers will rise above expectations and thus the degree of satisfaction will increase. Lee & Kim (2011) found that transformational leadership is positively related to the professional satisfaction of employees in government agencies, and that performance, professional satisfaction and transformational leadership are positively correlated.

Nguni et al. (2006) found that the transformational leader has an impact on organizational commitment, generating subordinates' commitment to the organization, organizational goals and values. Trust represents an essential element in the relationship that exists between transformational leaders and their subordinates. The degree of trust that exists in an organization can determine a large part of the organization's character and influences the organizational structure, work satisfaction, commitment, communication and organizational behavior (Zeffane & Connell, 2003). There is empirical evidence showing a relationship between transformational leadership on the one hand and the creativity and innovative ideas of subordinates on the other. Jung, Chow and Wu (2003) used data from 32 Taiwanese electronics and telecommunications companies and analyzed how transformational leadership influences creativity at organizational level. The authors observed that transformational leadership is relativistically positive and statistically significant both with the perception of subordinates about their own freedom of innovation and with the existence of an organizational climate oriented towards the support of innovation.

In another study, conducted in Korea, Shin and Zhou (2003) demonstrated that transformational leadership is positively correlated with the level of creativity of subordinates. Moreover, similarly, Gong, Huang and Farh (2009) found that learning orientation and transformational leadership were positively associated with employee creativity. Transformational leaders increase the intrinsic motivation of subordinates, which stimulates creativity, and intellectual stimulation encourages subordinates to think creatively (Bass & Riggio, 2006).

Eisenbeiss et al. (2008) investigated the relationships between transformational leadership, team innovation, support for innovation and the climate to excel. The results showed that transformational leadership supports innovation. Innovation also interacts with the climate to excel, so support for innovation improves team innovation only when the climate to excel is best.

Wang and Rode (2010) analyzed relationships between transformational leadership, employee identification with the leader, innovative climate, and employee creativity. According to the results, transformational leadership was not associated with employee creativity, innovative climate, or employee identification of the leader. However, employee identification with the leader, and the innovative climate have been associated with employee creativity.

According to the results of Yıldız and Özcan (2014), there is a positive link between transformational leadership and subordinate creativity. In addition, transformational leadership and creativity are closely interrelated. It is very important that transformational leaders can inspire others to be more creative (Bass & Riggio, 2006).

In general, performing managers are described as pragmatic, dynamic, attentive, persevering, mature and emotionally stable (Chakrabarti & Kundu, 1984). Although these aspects describe transformational leaders, a limited number of researches focused on analyzing the relationship between transformational leadership and managerial performance (Alban-Metcalf & Alimo-Metcalf, 2007; Hu et al., 2013; Liaw et al., 2010; Muchiri et al., 2012); they were based on a qualitative approach to management performance assessed through questionnaires. The majority of the developed studies are oriented towards highlighting the impact of transformational leadership on subordinate performances (Bo, 2013; Clifford et al, 2010; Hawkins & Dulewicz, 2009) and organizational performance (Jing & Avery, 2008, Vincent-Höper et al., 2012).

3. TRANSFORMATIONAL LEADERSHIP OR TRANSACTIONAL LEADERSHIP?

In order to effectively and efficiently solve the problems encountered within the organizations, leaders are guided by leadership styles that increase the involvement of subordinates in solving problems (Potcovaru & Girneata, 2015). Leadership is probably one of the most important aspects of management (Wehrich et al., 2008). In the literature, transformational leadership is often investigated by opposition to transactional leadership, that is, with that type of leader interested in persuading others to act by motivating them extrinsically by rewards, punishments, or giving them immediate short term rewards. The definition and conceptualization of transformational leadership

has also often been made in comparison with transactional leadership. A justification for the comparison between these two styles is related to the desire to underline the difference from the transaction.

The Transformational Leadership Concept was initiated and developed by Burns (1978) and Bass (1985) from the point of view of its organizational implementation. Yukl (1999) asserts that transformational leadership is a process of commitment in achieving the common goals of the organization, and then a process of encouraging disciples to fulfill them. Northouse (2004) defines leadership as "a process by which a person influences a group of individuals to achieve a common goal." In other words, this style of leadership is dominated by the ability to make people want to change, improve, be led. Therefore, the elements mentioned imply the establishment, satisfaction and capitalization of their needs.

Max Weber's model of transactional leadership, presented in 1947, was taken over by Bass and Avolio in 1981, which later developed and perfected the Multifactorial Leadership Quiz (MLQ). Transactional Leadership describes a relationship of "giving and taking", a working relationship - a relationship between leader and subordinate, which is established by exchange, such as a reward system for achieving certain goals (Burns, 1978).

Transactional and transformational leadership is not mutually exclusive. The same leader can use both types of leadership, but at different times or in different circumstances. This new vision of an organization is closely linked to the values sought by both leaders and subordinates.

The transactional leader is associated with the ability to achieve results, to control through structures and processes, to solve problems, to plan and organize and to work within the structures and limits of the organization. Negotiation skills are essential to the transactional leadership style. While leaders must clearly define job descriptions, subordinates must be able to deliver results and meet the leader's expectations. Effective transactional leaders are those who clarify what is expected from employees, explain how to meet these expectations, list the performance evaluation criteria, provide feedback, and allocate rewards to those who have achieved their goals.

Burns distinguishes between transactional and transformational leaders explaining that: transactional leaders are those who offer tangible rewards for the work and loyalty of subordinates. Transformational leaders are leaders who engage in the same work as subordinates, focus on intrinsic higher order needs, and highlight new ways in which organizational outcomes could be achieved (Hay, 2012). Transactional leaders tend to be more passive than transformational leaders. Thus, in transactional leadership, managers must lead by fear of consequences. In this style, negative behavior is punished and employees are motivated by incentives. The transformational style supports the idea that managers work to encourage their subordinates. Leaders start from positive assumptions about their subordinates. They trust that they are respectful, responsible and motivated. Leaders provide subordinates with the necessary equipment to excel. According to the results of Bass and Avolio (1993), managers who behave as transformational leaders are seen by colleagues and subordinates as more efficient than transactional leaders.

Although many leadership theories have been developed and studied excessively, the transformational leadership style has become the most commonly researched over the last two decades due to its demonstrated influence on the growth of positive attitudes and the level of performance of subordinates. According to literature research conducted, transformational leaders focus on key behaviors, including motivating subordinates to establish challenging goals, giving them the confidence to overcome expectations and meet their full potential. **We consider** that, in the current world where we increasingly hear about corporate mergers, layoffs, changing demographics, diversity in the workplace, important technological advances and uncertainty about the economy, **the transformational leader will become even more important**. Leaders will have to demonstrate confidence, give direction, and motivate subordinates to remain involved and dedicated to the goals of their organizations. Strong leaders are needed not only to create policies and procedures, but also to push subordinates to achieve excellent results and become good leaders themselves. Even if companies choose to hire these leaders from other companies or to select them

within the organization, having **transformational leadership is essential to the survival of an organization** in difficult times, as the transformative leadership style is driving innovation, employee retention, financial performance, improved market share and even customer satisfaction.

4. RESEARCH RESULTS ON TRANSFORMATIONAL LEADERSHIP PERFORMANCE

In order to develop the conceptual model, the specialized literature dealing with the transformational leadership was first analyzed. Empirical research that targets this leadership style associates it with organizational innovation, intrinsic motivation, creativity, learning orientation, identification with the group, and last but not least with the performance of the organization.

Gumusluoglu and Ilsev undertake a research in 2007 that includes the link between transformational leadership, individual creativity, intrinsic motivation, psychological empowerment and organizational innovation variables. This research was attended by 163 employees and leaders from 43 Turkish firms with software development activities. The results suggest that transformational leadership has important effects at both individual and organizational level, therefore managers should stimulate their employees by empowering them. This mechanism significantly improves the creative performance of employees. Results should also encourage managers to engage in transformational leadership behaviors in order to stimulate the performance of their employees and to help stimulate innovation in the organization.

Another research is done by Obiwuru et al. in 2011. The transformational leadership style is being analyzed compared to the transactional one, and the effects of these styles on organizational performance in three small businesses in Nigeria have been highlighted. The study concludes that the transaction style of leadership is better suited to achieving performance in small businesses than transformational style.

Unlike the previous studies presented, Herman and Chiu (2014) measured the transformational leadership and other variables such as individual differentiation, group identification, creative and organizational behavior on a sample of 280 employees and 40 managers working in 40 banking branches in a city in China. The results suggest that organizations need to focus on training managers so that they are able to recognize and encourage both individuality and diversity within a group. When and where group cohesion and civic behavior are required, they should use idealized influence and inspire motivational behaviors to guide subordinates (Shamir et al., 1998). Managers should be aware of the leadership behaviors they display as they will affect how subordinates engage in work tasks that may later influence performance.

Transformational leadership has been found to have a significant effect on organizational innovation and learning orientation and market orientation has a significant effect on organizational innovation.

The conclusions drawn from the analysis of the presented studies are that the transformational leadership is an essential element in the organizations being generally measured with the Multifactorial Leadership Questionnaire. Research over the past decade has also highlighted that transformational leadership is more suited to those activities that involve frequent interaction among employees, where issues to be solved are unstructured and require creative solutions, and creating a common vision is vital.

It can be seen that transformational leadership has raised a particular interest among organizational researchers. Other research has highlighted the influence of personality traits on transformational leadership (Guay, 2013). As in the current economic environment problems are unpredictable and unexpected information, transformational leadership must be addressed in a more complex and closely related factors favoring the formation of this style of leadership.

The impact of leadership on company success continues to grow in importance in both the media and other research areas such as psychology, sociology. One of the key areas of leadership research involves examining successful business leaders to determine what differentiates them from their

peers because researchers believe that leadership style efficiency has a direct relationship with business performance (Collins, 2001; Girneata et al., 2015). The main institutional mechanism for the development of human capital is the formal education system: primary, secondary and tertiary. Because education is an investment, there is a significant positive correlation between education and economic-social productivity. When people are educated, their living standards increase what ultimately leads to an improvement in livelihoods. The role of education is therefore not only to share knowledge and skills, but also to give values, ideas, attitudes and aspirations important to natural development. Globally, educating a nation remains the vital strategy for the development of society around the world.

There have been many studies on training experiences that effectively lead leaders. McCauley et al. (1998) define six experiences in developing a leadership style, three formal and three informal. In other researches, authors examine what experiences and traits could make an effective leader. An example is the work of Bennis, which identifies the experiences that leaders have had either in business or elsewhere in life, and how they have shaped how they lead people (Bennis, 2002).

A study published in 2011 investigates how the level of education of a political leader affects economic growth in a country during its mandate, and especially whether more educated leaders generate greater growth. The sample consisted of 1,000 leaders who ruled between 1875 and 2004. The results demonstrated that intelligence is essential so that the hypothesis that better educated citizens could be better leaders is confirmed (Besley et al., 2011).

In 2007, Sahgal and Pathak conducted a research to analyze transformational leadership in India. It focused on the significant life experiences of leaders who contributed to success in organizations. Personal experiences shared by leaders provide valuable insights into the importance that family and childhood experiences play on their future development. The work of Sahgal and Pathak suggests that leaders do not appear as a consequence of events or incidents, but as a journey in life full of distinct experiences. Social agents may be parents, friends, or colleagues and mentors at work. This research seeks to identify the experiences that lead to transformational leadership behaviors.

The results of the study indicate that childhood experience influences and nourishes individual differences that remain stable in adolescence. Prior to success and achievement, surveyed leaders received generous support and family encouragement that led to increased self-confidence and independence in decision-making. Being raised in mixed families or members of the extended family, values such as respect for others, adaptability, and deep faith in divine power have been inspired. Leaders have stood beside these values, considering them the cornerstones of their success. The organizational life of these leaders was just as pleasant, loaded with rigorous training and training. These leaders had the possibility to work with the superiors who, while maintaining the interest of the subordinates in their minds, challenged them to overcome their defined borders and at the same time had the opportunity to be given guidance and support. Leadership develops in a risk-enhancing environment associated with a certain level of understanding and sensitivity among organizational decision-makers, bearing in mind that investments will not always bring the desired result. People have some shortcomings, they make mistakes, or even they can have idiosyncrasies; but if there are managers who show confidence in their capabilities and intentions, then this attitude can help overcome even the most difficult situations. It is appropriate to note that the group of leaders in this study takes into account the tasks and the connections between people. Leaders are development-oriented, but how they are expressed vary. They are human in their approach, but at the same time tenacious in making decisions. There is a coherence in terms of the challenges they face and the reality they believe in. Personal magnetism and the ability to excite others are demonstrated by their unique styles, ranging from being effective with the team to being tough leaders.

Behavior of managers shapes the image of the organization's world in the minds of subordinates, and this in turn influences the behavior and actions within the organization as a whole. Top managers determine the attitudes and behaviors of managers at lower levels, and all managers

influence the development of subordinate attitudes and values. A good leader creates a vision, communicates and cultivates it and leads to its fulfillment (Sloane, 2007). We can say that top managers, their management and communication style, their preferred incentive systems become some of the main determinants of organizational culture.

To summarize, one can argue that leadership can be developed. Life experience play an important role in building the capabilities that determine the achievement of professional success for an individual. Moreover, the development of leadership would boost if the organizations invested in building a culture where seniors would place more emphasis on their role in development, provide opportunities for subordinates to learn, experience, practice, and encourage them to apply what they learned without fear.

One of the theories that correlate leadership efficiency with business success in various fields, associates this success with transformational leadership. These experiences could be the antecedents that contribute to the formation of transformational leadership, and by identifying these leaders they could use the results of the study when they are hiring. A secondary benefit includes the development of training programs that could lead to an improvement in the quality of an organization's transformational leadership.

Over time, several specialists have been concerned with studying the link between the transformative leadership style and motivation to work. For example, Barbuto (2005) has demonstrated that transformational leadership has a positive and significant influence on intrinsic motivation and there is a negative correlation with individualized consideration.

Over the years, it has been shown that transformational leadership and charismatic leadership are very important aspects that are strongly associated with managerial and organizational performance (Hu et al., 2013). Effectiveness of leadership measures the ability of leaders to challenge subordinates to collective goals. Researchers exploring transformational and charismatic leadership should include the motivational effect in their study. The theory of transformational leadership is very important and many studies show that there is a positive relationship between it and other dependent variables such as employee satisfaction, commitment, motivation and performance (Lowe et al., 1996).

The study of Farid Ahmad and others (2014), analyzing the impact of transformational leadership on the motivation of Pakistan's telecoms industry, identified links between motivation and each component of transformational leadership on a sample of 294 managers and subordinates. Motivation in work is a very important factor for organizations because it is the only factor that can increase the capacity of subordinates and lead to success. The study aims to identify the impact of motivation on transformational leadership on Pakistan's managers and subordinates. The results of the study indicate a positive and significant correlation between idealized influence and motivation in work. There is also a positive and significant relationship between inspirational motivation and motivation of managers and subordinates. Intellectual stimulation also has a positive and significant relationship with the motivation of managers and subordinates to work. Individualized consideration is also positively and significantly correlated with motivating the motivation of managers and subordinates to work.

Transformational leadership is surrounded by idealized influence, intellectual stimulation and inspirational motivation. Transformational leaders have a convincing vision that stimulates strong feelings (Bass, 1985), which contributes to increasing the subordinates' perception of ideal goals and contributes to the inspiration to overcome their own interest in meeting collective goals (Shamir et al., 1998).

For example, Judge et al. (2002) present the results of a meta-analysis showing that personality variables are consistently and reliably correlated with leadership variables. Chan and Drasgow (2001) demonstrate that a number of cognitive, personality and motivational constructs are linked to leadership on different samples from international environments. Schneider et al. (1999) show that a variety of personality constructs, interests and motivation can predict the leadership style among

high school students. At the same time, we can say that motivation is a complete activity that any intelligent leader needs to pay attention to.

5. CONCLUSIONS

Dynamic and efficient leadership involves creating a vision and action plan to ensure that organizations are customer-centered, as well as creating a favorable environment for employees to optimize productivity and innovation. Transformational leadership is becoming increasingly important and evident at all levels of organizations. For this reason, leaders should learn how to empower subordinates to have skilled teams, which will increase productivity for the organization. Transformational leaders become a source of inspiration for others, they satisfy and amplify the need of each of their subordinates by individual appreciation, simulating them intellectually, searching for new sources of information. Consequently, establishing the appropriateness and congruence between individual and organizational needs is essential to the success of the transformational leader. Transformational leadership means to exert an impact on the transformation and development of individuals, groups and organizations, thus leading to an increase in quality of life, efficiency and performance in different environments. Therefore, leadership plays a very important role at all three levels of organizational behavior: organizational, group and individual.

In conclusion, according to the above, it results that the transformational leaders generate greater involvement in the subordinates. This involvement results in higher efficiency and satisfaction leading to managerial and organizational performance. In theory, transformational leadership is positively correlated with a variety of organizational outcomes. From a theoretical point of view, the literature offers empirical evidence and reinforces the assumption according to which transformational leadership generates positive results for organizations.

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