

# Impact Of Transformational Leadership Style, Organizational Innovation On Company Performance In Saudi Arabia

**Basil Mahmud Ali Defalla<sup>1</sup>, Yap Voon Choong<sup>2</sup>**

<sup>1,2</sup> Faculty of Management, Multimedia University, Malaysia.

---

## **Abstract**

This study Investigates the impact of transformational leadership style, organizational innovation on company performance in Saudi Arabia. The leadership theory is employed in proposing the transformational leadership style, organizational innovation and company performance. Transformational leadership has a great importance in terms of motivation and encouragement and an impression on the followers. A leader who has a strong and influential personality leaves a strong impact. Moreover, transformational leadership also supports organizational innovation, which improves the performance of employees, thus, the performance of the companies. Accordingly, the company's performance develops and improves its growth and competitiveness in the market, and enhances its ability to improve performance for the better. The importance of this study is to understand how transformational leadership provides wise to the managers and guidance to make sure that the companies succeed and continues in the business environment in the long-term. Therefore, to understand how innovation organization has ability to impact the performance of the companies. Based on the quantitative research approach, the questionnaires were randomly distributed to 300 different business sectors companies in Saudi Arabia. A total of 220 companies returned the completed questionnaires and these were used in the final analysis. The use of cross-sectional data and key informants are the main limitations of this study. The results indicate that managers must have knowledge of leadership styles and examine critical assumptions to question interest in perspectives to obtain different performance results.

**Keywords:** transformational leadership, organizational innovation, performance, Saudi Arabia.

## **1. Introduction:**

Wise leadership is a guide for the companies to support and motivate employees to enhance their performance, achieve innovation, stability, and job satisfaction, which achieves the required goals for the company's success. Thus, many evidence shows that transformational managers have significant impact on the company performance (García Morales et al., 2008). and influence the follower's performance. Transformational leadership has an effective impact on the innovation climate that adds an effective value to the performance of the companies (Naguib and Naim, 2018). This was also explained Howell and Avolio, (1993) who found that intellectual stimulation

and individual consideration of transformational leadership affect the innovation environment, as employees tend to follow the style of a leader who has the ability to influence others.

Furthermore, Leadership is an important factor in to enhance the transformations in organizations (Thomas and Dennis, 2014; Zia, 2015). The leaders need to understand the need and motive of the subordinates. Importantly, the learning abilities such as exploitation and exploration (Alpkan et al., 2012). A successful leader can breathe life into the company, using existing competencies and exploiting the revision of the current organizational process, so that it becomes more efficient, and improve production requirements. Therefore, exploration involves researching, developing, discovering new possibilities, and achieving uncertain results (González, Jiménez, 2018). Thus, it becomes necessary not only to exploit existing products or services but to explore new opportunities to implement new products or services.

Transformational leadership encourages employees to challenge difficulties. Wang and Rod (2010) found that the innovation climate creates the relationship between transformational leadership and employee creativity. Thus, the relationship between transformational leadership and innovation climate may be a mediator between transformational leadership and organizational innovation (Naguib and Naim, 2018). The transformational leader seeks to bring about change and development constantly. He also cares about organized teamwork. Leadership styles have an impact on managers or supervisors and on organizational performance, therefore, help mediate roles to improve organizational performance (Arif and Akram, 2018). Transformational leadership focuses on the moral and human values of followers, equality, and the promotion of these human values in followers. (E. Struchan et al., 2015) Organizational effectiveness and high financial performance require a leader who could be collaborative, exploiting tension and internal conflict to achieve an advanced level of awareness (Yukl, 2008; Shahin et al, 2014). Importance of research presented in this paper comes out of a fact that there is a need of studies on this topic. Therefore, the basic motive of this paper was to understand and to identify condition of leadership and its impact on business performance in companies in Saudi Arabia. This research has an additional importance due to centralization management, existed in public and private companies, that do business in Saudi Arabia.

## **2. Literature Review and hypothesis development**

### **2.1 Transformational Leadership and Company Performance**

Drawing from the literature, transformational leadership has been clarified as one of the most used methods for its important role in organizational performance. Bass and Avolio (2012) outline developments in transformational leadership. He stated that transformational leadership has four components; The engaging role of modeling, inspirational motivation, individual consideration and intellectual stimulation. Some factors affect the performance of the company, it could be internal or external factors (Arif and Akram, 2018). Leadership style is considered as an Internal factor that affects the performance of the company (Alrowwad, Obeidat, Tarhini and Aqqad, 2017). Leader behavior encourages followers to focus on achieving organizational goals and motivates followers (Avolio et al., 2004). Employees who work in a supportive climate are more

effective. Charismatic behaviors of the transformational leaders, provide inspirational motivation, intellectual stimulation (Dvir, Eden, Avolio and Shamir, 2002).

In the literature, transformational leaders influence employee performance within a company through the strong bonds they make with employees and their followers (Wang et al., 2008; Wang et al., 2005). Scholars also provide the support that these leaders as they advocate conceptual values and engage in conscious incentives that support the performance of the organization (Shamir et al., 1993). Thus, companies changing from the traditional authoritarian style to the transformational style as a result of the fact that employees need support and encouragement from their management rather only financial benefits (Zia, 2015).

By looking at studies of organizational learning and innovation showing an effect on organizational performance. Hypothesis (H1): Transformational leadership has an impact on company performance.

## **2.2 Transformational Leadership Relationship with Organizational Innovation**

The researchers concluded in the research of collective innovative behavior that it is positively related to transformational leadership, as the relationship between collective innovative behavior and transformational leadership is moderate through radical change. (Feng, Huang and Zhang, 2016). Furthermore, leadership is a dynamic concept that has an impact on the financial and individual operations of many companies (Zia, 2015).

Thus, transformational leadership has an important impact on innovation, such as increasing goal-directed behavior, promoting organizational change, and helping employees to exceed their performance expectations. Moreover, the relationship and the effect between both exploitative and exploratory innovation on organizational performance were clarified. By motivating employees, the impact of transformational leadership is positive by halting motivational, moral, or empowering decline with the followers (Dvir, Eden, Avolio and Shamir, 2002)

Studies have also shown that organizational innovation has a positive impact on company performance. It is also important for managers to pay attention to innovation in companies to improve performance and increase production (Pejman Ebrahimi, Seyedeh Marzieh Moosavi, Ebrahim Chirani, 2016; Arif and Akram, 2018). Innovation is the systematic analysis of opportunities resulting from change, reflection and optimal exploitation of these opportunities, and transforming them into creative potentials. Hypothesis (H2): Transformational leadership has an impact on organizational innovation.

## **2.3 Transformational Leadership, Organizational Innovation and Company Performance**

Innovation plays a mediating role in the performance of the organization, as the use of Innovation Management Techniques (IMTS) affects the innovation performance of companies. According to Schepers (2013) "Transactional leadership style is characterized by characteristics of charisma, individual considerations, intellectual stimulation, and inspiring motivation while transactional leadership is characterized by episodic reward and management by exception". The charisma of the leaders should inspire their employees and instill pride and respect for the organizations they work (Mutahar, et al, 2015). Innovation is to bring renewal in the organization, flexibility in

performing tasks, and improving working relationships, which requires the experience of managers, in how to follow methods that contribute to regulating the behavior of the organization and making it more effective.

The relationship between transformational leadership and innovation management also has a strong influence within the industrial companies (Igartua, and Peiro, 2018). That enhances the importance of the relationship. According to the results of Tareq Ghaleb Abu Orabi, (2016), transformational leadership positively affects organizational performance. In terms of direction and development to increase the performance of organizations business organizations focuses on the ability of the leaders, improve motivation and create a positive environment (Sohmen, 2013; Al Shanqaiti and Farea, 2021). Therefore, multinational companies are more interested in innovation (Arif and Akram, 2018). The effective leader must sense and realize the problems that are around him in the company and their results, thus, trying to develop solutions to those problems in a creative way.

Hypothesis (H3): Organizational innovation has an impact on company performance.

Figure 1 demonstrates conceptual framework of the research and the hypothesized relationships between the construct's variables.

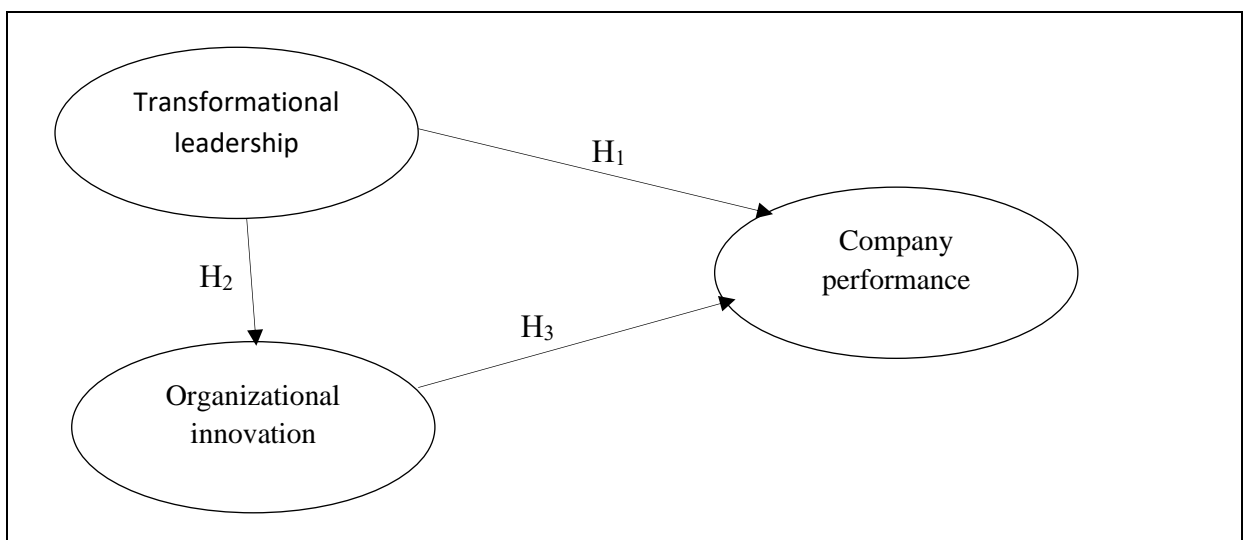


Figure 1. The proposed conceptual framework

## 2.4 Hypothesis of research

1. Transformational Leadership has an impact on company performance.
2. Transformational Leadership has an impact on Organizational Innovation.
3. Organizational Innovation has an impact on Company performance.

## 3. Research methodology

### 3.1 Research Design:

This study investigates the effect of transformational leadership style on organizational performance and mediating organizational innovation in Saudi Arabia companies, by means of a research designs area adopted. The quantitative study applies a survey questionnaire approach as

a type of research design. The survey method using a structured questionnaire was utilized to obtain primary data from the participants. The data has been analyzed using Statistical Package for Social. The 5-point scale was chosen for measuring the acceptance level of the respondents. 1 for strongly disagree, and 5 for strongly agree.

### **3.2 Research Sample and Data Collection:**

A various number of companies in Saudi Arabia have been selected from Riyadh, Jeddah and Dammam. Without display of the company names for the purpose of confidentiality. The companies were selected are involved in different business sectors. A random sample consisting of 300 employees was invited to be the survey, and only 220 were returned to the researcher. This represents a return rate of 73.33%.

### **3.3 Objective of research**

The study was conducted to obtain the objectives below:

1. To find the effect of transformational leadership on company performance.
2. To examine the effect of transformational leadership on organizational innovation.
3. To examine the effect of organizational innovation on company performance.

In the research summarizes the final results of the hypothesizer were examined in this study:

## **4. Measures**

The first demographic characteristic considered in this study was the gender, with 84.5% (i.e., 186 respondents) male and 15.5% (i.e., 68 respondents) female. The management field is a male-dominated profession in Saudi Arabia as a result the substantial difference in gender is expected. The respondents within the age group of 41- 50 years made up 44.5% of the sample, followed by those within 31 – 40 years, corresponding to 35.9%. Moreover, the other two age categories of 30 years and below, and 50 years and above, made up 10.5% and 79.1% of the total respondents respectively. Regarding educational attainment, 11.4% of the respondents have at least diploma / equivalent, 57.7% of the respondents have at least a bachelor's or equivalent degree, with 30.9 % of these having a graduate degree.

Consistent with sampled respondents. Thus, the sampled respondents were found to have acquired experience in different management level. Finally, with respect to management level, a majority of the respondents (i.e., 46.4%) were from middle management, followed by top management who constituted 35.5%. And the remaining 18.2% occupied low management level. Additionally, analysis on the data revealed demography, the nationality of the respondents (i.e., 37%) are Saudi national. (i.e., 63%) are non- Saudi nationality.

## **5. Research results and Discussion**

### **5.1 Correlation Analysis**

**Table 5.1: Correlation Analysis**

Variables		Transformational Leadership style	Organizational Innovation	Company performance
Transformational Leadership style	Pearson Correlation	1	.508**	.226**
	Sig. (2-tailed)		.000	.001
	N	220	220	220
Organizational Innovation	Pearson Correlation	.508**	1	.458**
	Sig. (2-tailed)	.000		.000
	N	220	220	220
Company performance	Pearson Correlation	.226**	.458**	1
	Sig. (2-tailed)	.001	.000	
	N	220	220	220
**. Correlation is significant at the 0.01 level (2-tailed).				

## 5.2 Regression analysis

**Table 5.2: Regression analysis**

Hypothesis	Beta Coefficient	p-value	Hypothesis Support
Transformational Leadership has an impact on company performance.	.508	.000	Yes
Transformational Leadership has an impact on Organizational Innovation.	.458	.000	Yes
Organizational Innovation has an impact on Company performance	.226	.000	Yes

The hypothesized test of transformational leadership carries an impact on company performance. The dependent variable transformational leadership was regressed on predicting variable company performance to test hypothesis H1. Which indicate that transformational leadership can play a significant role in shaping company performance ( $b = .508$ ,  $p < 0.001$ ). Therefore, the hypothesized test of transformational leadership carries an impact on organizational innovation. The dependent variable transformational leadership was regressed on predicting variable organizational innovation to test hypothesis H2. Which show that transformational leadership can play a significant role in shaping organizational innovation ( $b = .458$ ,  $p < 0.001$ ). Furthermore, the hypothesized test of organizational innovation carries an impact on company performance. The dependent variable organizational innovation was regressed on predicting variable company performance to test hypothesis H3. Which also, indicate that organizational innovation can play a significant role in shaping company performance ( $b = .226$ ,  $p < 0.001$ ).

## 5.3 Model Summary

**Table 5.3: Model Summary analysis**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.458 <sup>a</sup>	.210	.203	.68931	.210	28.858	2	217	.000
a. Predictors: (Constant), Organizational Innovation, Transformational Leadership style									

Moreover, as shown in model summary that  $F = 28.858$ ,  $p < .001$ ,  $R^2 = .210$  depicts that the model explains 21% of the variance in company performance.

## 6. Conclusion

The results of the study indicate that it is necessary for managers to pay attention to and encourage diversity and individuality in the company, as well as consider the moral and ethical consequences of decisions that help others develop their strengths.

The results indicate that managers must have knowledge of leadership styles and examine critical assumptions to question interest in perspectives to obtain different performance results. The results support the assumed hypothesis and indicate that transformational leadership affects the company's performance, as well as organizational innovation, has an impact on the company's performance. The study will also encourage other future researchers to develop and review additional effects of transformational leadership and company performance.

## 7. References

- A.M. Al Shanqaiti & M. M. Farea. (2021). The Impact of Transformational Leadership Factors on Project Progress and which Factor has Significant Influence and Great Contribution towards Project Success. *Special Issue on Computing Technology and Information Management*, 1735-188X.
- Adil Zia. (2015). Transformational Leadership a Study of Banking Sector in Saudi Arabia. *Global Journal of Management and Business Research*, 2249-4588.
- Ala'aldin Alrowwad, Bader Yousef Obeidat, Ali Tarhini & Noor Aqqad. (2017). The Impact of Transformational Leadership on Organizational Performance via the Mediating Role of Corporate Social Responsibility: A Structural Equation Modeling Approach. *International Business Research*, 1913-9004.
- Albors-garrigos, J. O. S. E., Igartua, J. I., & Peiro, A. (2018). Innovation management techniques and tools: its impact on firm innovation performance. *International Journal of Innovation Management*, 1850051.
- Alpkan, L. Ü., Şanal, M. and Ayden, Y. U. (2012), "Market Orientation, Ambidexterity and Performance Outcomes", *Procedia - Social and Behavioral Sciences*, Vol. 41 No. 1, pp. 461-468.
- Amena Y. Mutahar, Amran Md Rasli & Basheer M. Al-Ghazali. (2015). Relationship of Transformational Leadership, Organizational Learning and Organizational Performance. *International Journal of Economics and Financial Issues*, 2146-4138.

- Antonakis, J., Avolio, B. J., & Sivasubramaniam, N. (2003). Context and leadership: An examination of the nine-factor full range leadership theory using the Multifactor Leadership Questionnaire. *The Leadership Quarterly*, 14, 261-295
- Avolio, B.J., Gardner, W.L., Walumbwa, F.O., Luthans, F., & May, D.R. (2004). Unlocking the mask: A look at the process by which authentic leaders impact follower attitudes and behaviors. *The leadership quarterly*, 15(6), 801-823.
- Bass, B. M. (2012). Two decades of research and development in transformational leadership. *European Journal of Work and Organizational Psychology*, 8(1), 9-32.
- Ebrahimi, P., Moosavi, S. M., & Chirani, E. (2016). Relationship between Leadership Styles and Organizational Performance by Considering Innovation in Manufacturing Companies of Guilan Province. *Procedia-Social and Behavioral Sciences*, 230, 351- 358.
- Edin Strukan, Milan Nikolić, Senad Sefić. (2015). Impact of transformational leadership on business performance. 1848-6339.
- Feng, C., Huang, X., & Zhang, L. (2016). A multilevel study of transformational leadership, dual organizational change and innovative behavior in groups. *Journal of Organizational Change Management*, 29(6), 855-877.
- García-Morales, V. J., Jiménez-Barrionuevo, M. M. and Gutiérrez-Gutiérrez, L. (2012), "Transformational leadership influence on organizational performance through organizational learning and innovation", *Journal of Business Research*, Vol. 65 No. 7, pp. 1040-1050.
- Hend Mohamed Naguib & Abd El-Hamed Mostafa Abou Naem. (2018). The impact of Transformational leadership on the organizational innovation. *The International Journal of Social Sciences and Humanities Invention*, 5(01): 4337-4343.
- Howell, J.M., and Avolio, B.J. (1993). Transformational leadership, transactional leadership, focus of control, and support for innovation: Key predictors of consolidated business-unit performance. *Journal of applied psychology*, 78, 891-902.
- Mosadragh., Ayoni, C. O (2013). Work motivation, job satisfaction, and organisational commitment of library personnel in academic and research Libraries in Oyo State, Nigeria. *Library Philosophy and Practice*, 1-16.
- Orabi, T. G. A. (2016). The impact of transformational leadership style on organizational performance: Evidence from Jordan. *International Journal of Human Resource Studies*, 6(2), 89-102.
- Sadia Arif & Aman Akram. (2018). Transformational Leadership and Organizational Performance. *SEISENSE Journal of Management*, 10.5281/zenodo.1306335.
- Shahin, A., Naftchali, J. S., & Pool, J. K. (2014). Developing a model for the influence of perceived organizational climate on organizational citizenship behaviour and organizational performance based on balanced score card. *International Journal of Productivity and Performance Management*, 63(3), 290- 307.
- Sohmen, V.S. (2013). Leadership and teamwork: Two sides of the same coin. *Journal of IT and Economic Development*, 4(2), 1-18.
- Taly Dvir, Dov Eden, Bruce Avolio & Boas Shamir. (2002). Impact of transformational leadership on follower development and performance: A field Experiment. *Academy of Management Journal*. 735-744.



Thomas S. Bateman & Dennis W. Organ (2014) Work Job Satisfaction and the Good Soldier: The Relationship Between Affect and Employee “Citizenship”.

Wang, H., Law, K. S., & Chen, Z. X. (2008). Leader member exchange, employee performance and work outcomes: An empirical study in the Chinese context. *The International Journal of Human Resource Management*, 19, 1809-1824.

Wang, H., Law, K. S., Hackett, R. D., Wang, D., & Chen, Z. X. (2005). Leader-member exchange as a mediator of the relationship between transformational leadership and followers’ performance and organizational citizenship behavior. *Academy of Management Journal*, 48, 420-432.

Yukl, G. (2008). How leaders influence organizational effectiveness. *The Leadership Quarterly*, 19(6), Yearly Review of Leadership, 708-722.