

A MIXED METHOD STUDY OF TRANSFORMATIONAL, TRANSACTIONAL,  
INNOVATIVE LEADERSHIP STYLES IN LARGE ACCOUNTING FIRMS

by

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## ABSTRACT

The purpose of this mixed method study was to determine if there is any relationship between leadership style and employees' perceptions of their leaders' leadership styles at large accounting firms and employees' perceptions of their leaders' commitment, motivation, job satisfaction, and innovation. The results indicated both transactional and transformational leadership qualities were ranked highly, suggesting the strong presence of each leadership style at the surveyed firms. The results suggested innovative leaders should establish a vision, a sense of purpose, and define deliverables to assist employees in achieving organizational goals. Accounting firm employees' understanding of innovation in their companies related only to reformation and optimization of some internal workplace practices and routines. Accounting firm leaders need to create a climate in which innovation can thrive. The results of this study indicated leaders of accounting firms underestimate the importance of innovation, and this underestimation is a major barrier to further organizational success. While innovation is low and poorly understood in the field of accounting, it is still evident (especially from qualitative analysis) that employees want innovation and are ready to embrace it in staffing practices, internal practices, and technology. Innovative leaders are the primary change agents and most important players in the firm who may promote and instill the change and innovation among staff, making it a part of the organizational culture. Future researchers should examine the relationship between leadership styles, human capital variables, and organizational performance.

## DEDICATION

I am dedicating this dissertation to my children Aris Cardoso, Arison Cardoso, and Arina Cardoso. They inspire me every day and fill my life with purpose and love and motivated me to finish this dissertation. I thank my children Aris, Arison, and Arina Cardoso for their continuous support because without their love and indulgence, this dissertation would never be done. I am truly thankful for my children, and I dedicate this document to them; no words can express my indebtedness and love for Aris, Arison, and Arina Cardoso.

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Last, but certainly not least, I dedicate this dissertation to the memory of my father, Olavo Bilac Lopes Cardoso. My father, who loved me unreservedly and whose good examples have taught me the value of education and to work hard for the things I seek to achieve, and he always provided constant encouragement.

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## Chapter 1

### Introduction

Leadership is increasingly important in the corporate world of the 21st century because of the greater attention paid to the process of leadership. The concept of leadership has been in existence since the start of civilization (Bass & Bass, 2008). It is an integral part of our lives, occurring in schools, businesses, family, churches, and public and private organizations (Bass & Bass, 2008; Kouzes & Posner, 2007).

Leadership focuses on key relationships between those who have a desire to lead, and the leaders and followers who develop mutual respect and trust in each other (Kouzes & Posner, 2007). Leaders of organizations quickly realize that to overcome fierce competition in the business world, they need to keep in place strong leaders who can capture the abilities of human resources and turn them into performance capabilities.

The styles of transformational, transactional, and innovative leadership can be used to determine leaders' performance and to evaluate the characteristics of these leaders on an organizational basis. Transformational leaders display a high level of charisma and share a vision with their followers. Transformational leaders stimulate the followers to provide excellent service and exceptional performance. Transactional leaders offer rewards in exchange for quality performance, as evaluated by the employees. Innovative leadership, in contrast, inspires creativity and innovativeness from the employees to effect industry trends.

Change is ubiquitous in the global environment. Innovation involves the development and improvement of services that increase competitive value. Especially in challenging economic times, leaders of organizations need to adapt to survive. According to Drucker (2002), abandonment precedes innovation; companies must set aside that which is no longer working. Although the notion that abandonment



precedes innovation is intuitive, most business leaders are reluctant to relinquish old processes, practices, and policies.

The connection between strong leadership and organizational success is not new. It is not difficult to find evidence that leadership remains a topic of extreme interest in society. Few would debate the importance of strong leadership to organizations and the need to identify ways to harness the positive effects of high-quality leadership.

### **Background**

Organizations need strong leadership to intervene and solve corporate difficulties. The understanding of leadership has evolved over time, from the early focus on great man theory, according to which history was affected by the work of great men who possessed the traits, qualities, and vision needed to move society forward (Bass & Bass, 2008; Vroom & Jago, 2007). Leaders of organizations quickly recognize variations in all situations, particularly as we advance toward a technologically driven business environment. The three most popular styles of leadership in the contemporary corporate setting are transactional, transformational, and the recently proposed innovation style of leadership. There is a need for different types of leaders who reflect and are responsive to the various methods by which businesses operate. As such, there is a need to explore the three forms of leadership, which may result in determining the best approach to achieve organizational development goals. Effective leadership is an important determinant of organization success, and efficient use of leadership can lead to businesses achieving a competitive advantage by reaching the leaders' goals and objectives (Erkutlu, 2008; Kraus & Wilson, 2012).

In accounting services organizations, there is a need for innovation to meet ever-evolving conditions. Sharma and Bajpai (2010) found that leaders who encourage innovation most likely demonstrate a transformational style. In a rapidly changing business landscape, impossible ideas suddenly become possible, and ideas that were useful yesterday are ineffective today. Modern business leaders embrace a new complexity often not understood by many managers and their fellow leaders. A leader can produce respectable relationships and improve communication, which may enhance the potential for practical outcomes. In the new millennium, businesses need leaders with the imagination and determination to overcome organizational problems. Business leaders must decide the necessary components to maintain a competitive advantage and to clarify the mission focus of their organizations.

A leader with developed emotional intelligence can make a conscious choice of leadership style. With this awareness, a leader can adopt a leadership style that achieves the results for each specific situation. Sharma and Bajpai (2010) found that effective leaders have the skills to develop their teams to accomplish tasks, goals, or efficient processes within their organizations. Regardless of whether a leader is capable of choosing his or her style of leadership, each organization presents unique challenges that leaders must strive to overcome.

Great leaders motivate the members of their company to achieve change. The leader is also responsible for fostering an excellent working relationship with external groups. Effective communication is crucial in promoting good working relationships. Leaders identify appropriate working partners, and groups work toward goals established by leaders and the organization. Leaders need to be mindful of human nature and resulting behavior, staying conscious of how the workplace environment, personalities, and motivational forces drive the employees. Leaders who are familiar

with the forces that perceived to affect their business can use this knowledge to motivate and maximize production from their workforce. Studies have been conducted to examine performance, and performance has been defined and measured in different ways in various studies (Allen, Dawson, Wheatley, & White, 2007; McMahon, 2010). Various metrics have been used to measure performance, including productivity (Allen et al., 2007; Kearney & Gebert, 2009; Kearney, Gebert, & Voelpel, 2009; Kochan et al., 2003), performance (Allen et al., 2007), and profitability (Allen et al., 2007).

Leaders of accounting firms must be careful of changes in the business and its surroundings. Decision makers can develop the plan for formulating strategies and evaluate the external environment by assessing, monitoring, and analyzing data to prepare for unexpected problems. Managers at accounting firms have a priority matrix to help them improve many aspects of company operations, primarily using benchmarking. Company managers assess both the societal and business environments for strategic factors likely to affect success by detecting opportunities and threats. The best method of providing leadership is to use a combination of transformational and innovation to involve others in activities and decisions through collaboration, cooperation, and quality of innovations (Kearney & Gebert, 2009; Kearney et al., 2009).

### **Different Leadership Styles and Rationale for the Study**

Leadership has been defined in different ways throughout history. Despite the different definitions, there are commonalities. For example, it has been well accepted that great leaders demonstrate adaptability and flexibility when people are working together. Leadership is an important component that provides the need for transformation with a new direction and encourages others to accept, embrace, and

adjust to change. The transactional and transformational leadership styles are popular among scholars and practitioners based on the perspective of the individual (Inyang, 2013; Ruggieri & Abbate, 2013; Val & Kemp, 2012; Van Eeden, Cilliers, & Van Deventer, 2008; Van Genderen, 2012; Yukl, 2006). Kouzes and Posner (2002) defined leadership as a process that inspires, empowers, and established authority. Similarly, Northouse (2001) defined leadership as a process by which leaders influence followers to achieve common goals. Stogdill (1974) defined leadership as the act of influencing members of the group to act together to set and achieve goals. The concept of leadership style emphasizes how leader approaches opportunities. Leaders' style may perceive to influence others' effectiveness and performance and promote organizational learning. The style a leader chooses must be suitable for meeting expectations in the work environment, increase the effectiveness and performance of his or her organizations (Bahreinian, Ahi, & Soltani, 2012; Doina, 2008; Kause, 2007; Muhammed, 2012).

The concept of leadership has a rich history as a process for synthesizing and supporting the mission of a business (Ingleton, 2013; Johns & Moser, 1989; Metcalf & Benn, 2013). Bird's (1940) research was focused on the qualities of leaders. Kotter (1990) noted that while some traits increase the probability of a leader's success, no single factor can guarantee the leader's success. Ortmeier and Meese (2010) asserted leaders' genetic composition makes subordinates loyal to them. Leadership is required in every organization; it is critical to the success of an organization. Strong leaderships include the desire to lead, integrity and honesty, and intelligence and self-confidence. Effective leaders engage others to think through difficult problems and increase their work performance (Johns & Moser, 1989; Metcalf & Benn, 2013; Robbins, 2005).

Researchers have studied the concept of transformational leadership since the late 1970s. Considerable research has been performed on the topic, assessing its impact at the individual, team, and organizational levels (Judge & Piccolo, 2004; Wang, Oh, Courtright, & Colbert, 2011). Transformational leadership consists of challenge, inspiration, motivation, and encouragement provided by the leader. The results of numerous studies revealed the positive impact of transformational leadership on job satisfaction (Berson & Linton, 2005; Gilstrap & Collins, 2012; Gundersen, Hellesoy, & Raeder, 2012), individual performance (Biswas & Varma, 2011; Miao, Newman, & Lamb, 2012, Walumbwa & Hartnell, 2011; Wang & Howell, 2012), team performance (Yang et al., 2012; Zhang & Peterson, 2011), and motivation (Masi & Cooke, 2000). Transformational leadership reflects a positive relationship with effective managers and helping leaders to manage organizational challenges efficiently (Iqbal, Inayat, Ijaz, & Zahid, 2012; Pauliené, 2012).

Transactional leaders derive their authority from established power relationships and organizational structures, while transformational leadership is focused on change in leaders, subordinates, and organization (Bashman, 2012). Leaders in large accounting businesses do not demonstrate the leadership styles necessary to promote innovative work behavior. Koen, Bertels, and Kleinschmidt (2014) stated the importance of effective teams and team leaders is the success of innovation over years of research. Without innovative work behavior, large accounting firms lose the ability to be competitive and profitable.

Barnes, Christensen, and Stillman (2013) stated that transactional and transformational leadership approaches are meaningfully interconnected with efficiency, effectiveness, and satisfaction. The need for innovation and strategic vision is a global trend in business. The role and value of innovation in business

planning and leadership is well established, which includes the need to create an innovation-centered culture (Krumwiede, 2016).

Organizational innovation is defined as applied creativity and a standardized approach to problem resolution aimed at achieving business value. Despite its outcomes orientation, innovation is a valuable strategy for addressing complex problems or optimizing opportunities (Legrand & Weiss, 2011). The process of innovation has been recognized as a crucial element for sustainable large accounting business development in the realm of ever-changing demands, expanding technology, and ongoing globalization.

### **Transformational Leadership**

Burns (1978b) is credited with introducing the concept of transformational leadership, but it was House (1977) who established the groundwork. Transformational leadership is effective because it involves motivating followers. Transformational leadership is one of the styles of leadership that was encapsulated in Avolio, Bass, and Jung's (1999) multifactor theory of leadership. Bass (1985) described transformational leadership as inspiring followers by elevating the importance of their contribution and aligning the vision of the organization with the followers' skills and abilities.

Transformational leaders seek to achieve the self-actualization of their followers and use motivation to inspire followers to exceed goals by setting high expectations, creating valuable changes that optimize followers' performance in organizations, and encouraging other to engage in shared vision. These characteristics of transformational leaders are more desirable than other leadership styles (Johns & Moser, 1989; Kause, 2007; Yukl, 1999). Transformational leadership is composed of four behavioral components related to leaders' understanding and

consideration for followers' individual needs (Rothfelder, Ottenbacher, & Harrington, 2012). These components are idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration.

### **Transactional Leadership**

The transactional leader directs followers to achieve high standards, explore the relationship between leaders through a system of rewards and punishment, and provides benefits to individual who achieve organizational goals (Ertureten, Cemalcilar, & Aycan, 2013; Sabir, Sohail, & Khan, 2011). According to Burns (1978a), transactional leadership is indicated by a promise from the leader to the worker. The promise is based on the exchange of rewards or punishments for services provided or not provided by the worker. Transactional leadership, according to Bass (1985), is a style of leadership characterized by goal setting with rewards for achievement and punishment for failure to achieve these goals. The focus is on achieving the goals of the organization while providing valued rewards (Bass, 1985). Leadership styles may help individuals to lead and improve performance, affect employees' commitment, and optimize productivity level in the organization (Beagle, 2012; Hoving, 2007).

### **Statement of the Problem**

The general problem is that there is an absence of a recognized leadership style that is most effective and practiced in the large accounting firms. Researchers such as De Hoogh, Den Hartog, and Koopman (2005) and Eagly and Chin (2010) stated that there is a dearth of empirical research that examines leadership and performance outcomes. Accounting firms must remain cautious of variables in their environment. These variables might include those elements that directly perceived to affect the business, as well as governments, local communities, competitors,

suppliers, customers, creditors, and employees. Management teams in accounting firms must provide superior services to their customers, employees, and communities to maintain enduring relationships with satisfied clients. The goals of accounting firms are to provide more value-added services, explore ways to help customers, and create more value to customers. Modern businesses often adopt new problems that need solving by leaders.

Yan and Yan (2013) believed that innovation is essential to business longevity and success. Understanding and implementing leadership styles that correlate with innovation may lead to lower expenses and increase revenue. Khan, Aslam, and Riaz (2012) believed service industry firms must promote innovative work behavior to stay competitive. Leadership is a central role in promoting innovative work behavior in organizations. Organizational leaders who effectively promote innovative work behavior are critical to service improvement in accounting industries. M. Chen, Lin, Lin, and McDonough (2012) stated transformational leadership styles are more efficient than other leadership styles in facilitating organizational innovation because transformational leadership behaviors target change and innovation.

This study addressed the specific problem of transactional leadership style, which contributes to organizational failure (Agle, Nagarajan, Sonnenfeld, & Srinivasan, 2006; Khattak, Shah, & Said, 2014) and employees' poor performance (Allen et al., 2007; McMahan, 2010). Employees' poor performances create a loss in revenue; and researchers have linked shareholder value, revenue and profit to specific leadership types and performance (Clark & Allen, 2012; Groves & LaRocca, 2011a). A leader's role in large accounting firms is critical to ensuring that employees achieve targets or goals; leaders also manage the employees on a day-to-day basis (Homan & Greer, 2013). Leaders have a variety of responsibilities that can either help or impede



employees from achieving their goals, thus having an impact on large accounting firm employees' performance. Leadership sets the stage for employees to be challenged to think at a strategic level and use critical thinking skills to solve problems (Alimo-Metcalfe & Alban-Metcalfe, 2001). Leadership sets this stage through the leader's involvement and creation of a climate that is supportive, encourages innovation, and provides incentives to motivate employees (Kouzes & Posner, 2007).

Prior empirical research in the field provides sound evidence of a positive relationship between strategic results-driven leadership and organizational performance, as well as organizational innovativeness and leaders can help employees achieve success with effective leadership styles (Avolio & Bass, 2004; Bass & Riggio, 2006; Kouzes & Posner, 2007). However, due to its relationship with creativity, the concept of innovation is not widely incorporated in the accounting sector and its leadership framework. Also, the existing body of knowledge lacks clarity on specific leadership qualities that facilitate development and utilization of innovation competencies to boost organizational performance and productivity. This study was an attempt to close the knowledge gap by investigating how specific features of transactional and transformational leadership styles work together with innovation perceived to affect employee performance and organizational success (International Federation of Accountants [IFAC], 2016).

Accounting leadership is responsible for fulfilling a broad range of roles and functions to support steady organizational development and growth. In the increasingly complex world of finance and business, accounting leaders need to keep pace with the market and introduce new and effective solutions. The success of large accounting businesses depends on the efficiency of leadership performance (Krumwiede, 2016). As a process, innovation is crucial for sustainable business

development in the accounting industry, and never more so than in the 21st-century era of ever-changing demands, expanding technology, and ongoing globalization.

### **Purpose of the Study**

The purpose of this mixed method study was to determine if there is any relationship between leadership style and employees' perceptions of their leaders' leadership styles at large accounting firms measured by the Multifactor Leadership Questionnaire (Avolio & Bass, 2004); and employees' perceptions of their leaders' commitment, motivation, job satisfaction, and innovation. The intent of this study was to identify the perception, thoughts, and experiences of employees regarding the leadership approaches to innovation strategies on organizations' success in large accounting firms.

This study involved the use of a modified (with permission) Multifactor Leadership Questionnaire (MLQ), a survey-based measurement tool. The MLQ has been used in research studies for years and reported to have high reliability and validity (Avolio & Bass, 2004). The modified MLQ was administered to assess the relationship between leadership styles and its effect on employees' performance.

### **Significance of the Study**

Transformational leadership has been studied extensively since the 1980s and is well documented in the literature (Chi & Pan, 2012; DeRue & Workman, 2011; Hughes, Avey, & Nixon, 2010; Kirkman, Chen, Farh, Chen, & Lowe, 2009; Kouzes & Posner, 2007; Tichy & Devanna, 1990). Many studies reported positive effects of transformational leadership on individual performance (Biswas & Varma, 2011; Walumbwa & Hartnell, 2011; Wang & Howell, 2012), as well as on team performance (Yang et al., 2012; Zhang & Peterson, 2011). Results of this study might encourage chief executive officers (CEOs) of large accounting firms to assess their

leadership styles and provide effective, meaningful leadership service to their large accounting firms.

This study is also significant because it might help owners, partners, and employees in large accounting firms to develop effective leaders and to strengthen the leadership in their organizations. This study might also help to make leaders more aware of the transformational leadership characteristics that can help improve large accounting firms. According to Avolio and Bass (2004), transformational leadership studies can help to raise leaders' awareness of weaknesses and thereby improve their transformational leadership effectiveness. Avolio and Bass also suggested that transformational leadership studies could also facilitate the placing of leaders in their proper roles.

The anticipated results of this study were (a) that there is a connection between performance and transformational leadership at the follower and group levels in large accounting firms, and (b) how transformational leadership affects followers over time. A thematic analysis provided perspectives of how followers in large accounting organizations define leadership, and what they identify as the characteristics of effective leaders. An evaluation of how transformational leadership affects the performance of followers and group in large accounting firms may lead to fundamental changes in how large accounting organizations select leaders. The results of the study may influence how large accounting firms select leaders, with greater emphasis on leadership styles—especially transformational leadership—that produce positive outcomes and increase organizational effectiveness (Mahalinga Shiva & Suar, 2012).

Changes in leadership styles of the leaders of large accounting firms may result in higher performing organizations, improved efficiency, and improved

effectiveness in executing and managing large accounting businesses. While considerable research has already been conducted on transformational leadership, further research into this topic will benefit industry leaders as they continue to assess how leaders affect the performance of large accounting firms. By examining how transformational leadership affects employees' performance in large accounting firms, researchers and scholars will have better understanding of the dynamics of leadership and how to improve performance through transformational leadership behavior for a superior positive ROI (Abrell, Rowold, Weibler, & Moenninghoff, 2011). This study might help to close the gap in the knowledge base of empirical studies on leadership and performance in U.S. accounting firms.

Results of this study might also benefit human resource professionals because the information can be used to create leadership programs and interventions specifically designed to improve employee performance in large accounting firms. By understanding the type of leadership that may enhance performance in large accounting firms, top executives will be better equipped to champion and support leadership development programs. Findings of this study might also assist consultants in designing programs that will address the needs of leaders who manage employees in large accounting firms. Results of this study might also have a positive impact on how human resource professionals recruit and fill leadership positions, and promote individuals to leadership positions. The findings of this study might be applicable to leaders beyond the United States.

### **Significance of the Study to Leadership**

This study is significant to leadership because the knowledge gained from insights into leadership styles can be used to influence operations at accounting firms and service businesses and may contribute to the body of leadership knowledge and

practice. Application of leadership theory might help organizations promote transformational leadership training to improve organizational performance (Bass, 1990b; Stogdill, 1975; Vroom & Yetton, 1973). This study is significant to leadership of accounting firms because understanding of leadership styles and innovation may help these organizations maximize their profit and optimize their competitiveness over the long term. The study of leadership has provided knowledge and interpretations of what constitutes leadership, and scholars and practitioners continue to search for leadership models that will enhance business performance (Hülshager, Lang, Schewe, & Zijlstra, 2015; Yunus & Anuar, 2012; Zhang, Everett, Elkin, & Cone, 2012). Leaders who empower and engage their followers have a positive effect on organizational performance and motivation, which influence individuals' perceptions, behaviors, and relationships in work settings (Abrell et al., 2011; Schwartz, 2009). Leaders can influence innovation in organizations (Gumusluoglu & Ilsev, 2009), and the findings and conclusions in this study might help leaders to do so. This study might provide leaders at large accounting firms with new insights into leadership and innovation as a frame.

### **The Importance of the Study**

This study is important because it contributes to understanding of leadership styles in accounting by answering the question, *What do leaders need to know about leadership characteristics in fulfilling an innovation in accounting businesses?* According to Rosing, Frese, and Bausch (2011), dyadic theories are insufficient to explain the convolutions of invention in organizations. Innovation and leadership are necessary for large accounting businesses to gain a competitive advantage; internal innovation can unlock new value. Existing literature focuses on innovative business and offers theoretical ideas to help businesses achieve innovation.

Large accounting businesses must approach innovation with care because when changes are implemented, the result is often resistance. Individuals will be more inclined to adopt an innovation if they understand the innovation is better than the previous idea. Studying innovation and leadership strategy could help large accounting businesses to overcome the limitations of resistance and become more efficient in business. The prospect of innovation strategy may provide the best success for value from innovation and innovation leaders remove roadblocks to encourage performance (Catmull, 2014).

In developing a research design, the first step to take is deciding the target population. Because the focus of the research is on leadership style relative to attracting and maintaining new business to the accounting firm, the target group should include both current customers and noncustomers of an accounting firm. Establishing population boundaries is the next step in sampling design. Limits of interest are what will mostly be measured in the research. In the case of accounting, an edge of interest is the perceived importance of the company in its field, as perceived by a percentage of former customers.

A third sampling frame is potential clients who could be reached through in-home website surveys and online surveys advertised on outside websites that potential customers might visit. The appropriate sampling method in this study was stratified sampling. Stratified sampling, "usually more efficient statistically" (Cooper & Schindler, 2006, p. 10), considers all subgroups of the sample population, painting a clearer statistical picture for management. The last step in designing a sample is determining a sample size. Levels of accuracy, confidence, and a degree of variability are important considerations relative to the sample size (Israel, 2009). Israel (2009)

suggested using published tables or a similar study as a guide to select a sample size; both approaches are easy and cost-effective.

Large accounting firms could improve their capacity to satisfy customers by promoting what they provide. Accounting firms connect with industries through many venues and media that are useful for both parties. Large accounting firms have a major presence in the industrial marketplace; however, global competition and uncertain economic factors threaten the goal of maintaining market share dominance. This information will be more relevant through accurate and useful research that helps managers embrace organizational transactional, transformational, and innovation leadership style.

### **Nature of the Study**

The study investigated the relationship between employees' performance and leadership styles in large accounting firms in Massachusetts. A mixed method methodology was utilized to conduct the study, and data were collected via an online survey. The MLQ is a validated instrument with a full range of leadership development strategies designed to elicit data measuring leadership style behaviors and their effectiveness, with a focus on leadership behaviors observed by others. Multiple studies have confirmed the effectiveness of the MLQ (Avolio & Bass, 2004; Carless, 1998; Goussak, Webber, & Ser, 2011; Heinitz, Liepmann, & Felfe, 2005; Ho, Fie, Ching, & Ooi, 2009; Verlage, Rowold, & Schilling, 2012).

### **Overview of the Research Method**

The study employed a mixed method design to examine the impact of leadership styles on organizational performance and success by using statistical correlation to identify relationships between transformational and transactional leadership in a large accounting firms. Mixed method studies combine a quantitative

element with a supporting qualitative element to support the validity and reliability of the quantitative data. A modified (with permission) MLQ, a survey questionnaire, was the instrument used to capture quantitative data on relationships. The MLQ is typically administered through a secure website to collect the data.

In addition to the MLQ, four open-ended questions were posed to participants to explore the impacts of leadership and innovation on organizational success; these data were qualitative in nature. The sequence and wording of these four open-ended questions remained the same for all participants (Tashakkori & Teddlie, 2003). Statistical correlation was appropriate for use in this study because this method can express the direction and the degree of the relationships between dependent and independent variables. The use of open-ended questions was appropriate because such questions allow for exploration of the reasons and causes for leaders of large accounting firms to make change in leadership styles.

### **Research Method and Design Appropriateness**

Research requires the researcher to collect, analyze, and interpret data (Johnson & Onwuegbuzie, 2004). A review of the characteristics of mixed methods, qualitative, and quantitative approaches to examine the leadership styles in place in large accounting firms from the perspective of both leaders and employees led to the selection of a mixed methods approach as the most appropriate to fulfill the study goals. The strength of the mixed method model is the combination of qualitative and quantitative components. Combining these components enhances credibility because the qualitative data corroborates the quantitative data. The quantitative data are used to analyze variances in leadership style in a way that can be generalized to a larger population, test hypotheses, and generate statistics. The research questions guide the researcher's choice of methods (Christensen, Johnson, & Turner, 2011; Creswell,



2005; Farrelly, 2013; Johnson & Onwuegbuzie, 2004; Leedy & Ormrod, 2010).

Correlational research is effective in testing relationships between variables

(Fitzgerald, Rumrill, & Schenker, 2004).

### **Population and Sample**

The research purpose was to investigate the presence and extent of relationships between leadership styles, innovation, and organizational performance for a sample of participants in the accounting industry. The present research interest developed from the abundance of empirical studies illustrating a positive association between strategic leadership and innovation, leadership and organizational success, and innovation leadership and organizational performance. Although professional guidelines for leadership qualities common in accounting management emphasize the value of innovation and value-oriented leadership, few studies provide factual evidence on the influence of innovation leadership relative to employee performance and the success of large accounting businesses. The purpose of the current research study was to address this gap in the literature. This inquiry targeted employees of large account businesses to identify leadership practices adopted in the accounting industry.

In quantitative research, the process of obtaining a sample is not a simple matter (Balnaves & Caputi, 2001). Researchers must address several issues before obtaining a sample (Creswell, 2003; Punch, 2003; Zikmund, Babin, Carr, & Griffin, 2010). These are the steps recommended for researchers undertaking quantitative research:

1. Identify the target population and sampling frame.
2. Determine the sampling method and the procedures for locating participants.
3. Determine the appropriate number of participants (i.e., the sample size).

The target population should be clearly defined so that the sources from which the participants are chosen can be identified. Target population refers to a complete group that includes only those who are pertinent to the research project (Zikmund et al., 2010). In this study, the target population was employees who work in large accounting firms in Massachusetts. The sampling frame involved collecting a study sample drawn from employees who work in large accounting firms in Massachusetts.

It would be impractical and prohibitively expensive to investigate all participants in the target population. However, it is important to use a representative sample of this target population to reduce the gap between the sample and target population. Because web-based surveys afford no opportunity for application of a selection procedure (i.e., the probability of any participant being selected is unknown), nonprobability judgmental sampling was used to select potential participants from the target population. The sampling method focused on selecting participants who have certain characteristics to fulfil the purpose of the study (Zikmund, 2003). One of the advantages of this sampling method is that it helps in collecting a large number of participants effectively, which is essential for achieving the purpose of the study (Zikmund, 2003). This sampling method is one of the most appropriate options to use when the target population is difficult to locate.

Several methods have been developed to estimate the appropriate sample size for any research. Some researchers believe that estimating an appropriate sample size depends largely on the nature and purpose of study, the degree of accuracy that is required from the results, and the variation of the population (Balnaves & Caputi, 2001; De Vaus, 2002). While there is no correct or incorrect sample size (Garson, 2011) recommended, several approaches are available for determining an appropriate sample size.

The web-based survey included sections to capture demographic data as well as data specific to the study concerns. For demographic data, participants were asked to provide information about their age, gender, and academic background. Participants answered these questions by keying in their entries. It was assumed that a large percentage of participants are employed by a large accounting firm.

The population of this mixed method study was the first-level managers and employees of a large accounting organization in Massachusetts. The selected participants must be willing to take part in the study and work at one of several purposefully selected large accounting business organizations in Massachusetts. Data were collected from large accounting business organizations with 10 to 200 employees. A sample of more than 100 members was carefully selected from the target population. According to Neuman (2006), a smaller group of participants, a cross-section of the greater population, allows a researcher to determine characteristics and investigate the phenomenon central to the research problem in greater detail. As Hussain (2010) remarked,

It is not sufficient . . . to assume the findings from the sample will be replicated in the rest of the population; therefore, the sample . . . needs to be carefully selected if there is to be any confidence the findings from the sample are similar to those found among the rest of the category under investigation.  
(n.p.)

After defining the target population of this research project, the next task was to establish a sample selection plan. A core criterion to narrow the research focus is geographic location. This study sampled employees and first-line managers of accounting firms located in Massachusetts. The next selection criterion was firm size, distinguishing between small and large accounting firms. This distinction was based

on the assumption that subsidiaries of major international corporations might enjoy higher levels of innovation and strategic leadership than independent accounting firms do. The focus of the current study was on accounting personnel employed in large-scale accounting firms. In keeping with these selection criteria, large accounting firms were chosen from which to recruit study participants for this study.

Before recruitment procedures are launched, permission from the University of Phoenix Institutional Review Board was obtained to conduct the study. Then random potential participants received an explanatory e-mail message containing a link to the online survey. The survey was administered via SurveyMonkey. An informed consent statement and instructions were presented to potential participants before the survey could be accessed. Accessing, completing, and submitting the completed survey demonstrated participants' informed consent.

More than 100 participants received invitations to participate in the study. The potential participants then received an email with a website link to the modified (with permission) MLQ, which was accessible only after participants completed the informed consent form that was presented as a gateway to the modified MLQ. Employees willing to participate were instructed to indicate their consent by completing the informed consent form and accessing and completing the questionnaire. The informed consent form explained to potential participants the nature, purpose, and significance of the study, as well as the confidential and voluntary nature of their participation. The total sample for this project was at least 100 employees assigned to non-management positions in accounting firms located in Massachusetts.

## Research Instruments

Research instruments help the researcher measure the identified variables in the sample population. According to Cram, Karan, and Stuart (2009), “Error that constitutes a threat to internal validity when results used as dependent variables in [business] that might predict those results, such as accounting ratios and different measures of firm size will also vary predictably by industry and firm size” (p. 2). A valid instrument measures what it is intended to measure.

Accounting companies are legally required to publish and submit annual reports. Annual reports served as the instruments in this quantitative correlation and comparative study. Two linear regressions, return on assets ratio and return on equity ratio, were utilized to analyze the effect on profitability on accounting companies. It is expected this study may show that not all accounting companies are profitable, and more forethought is needed before companies pursue a merger or acquisition to avoid failure.

The original Multifactor Leadership Questionnaire has been used extensively for research studies on leadership with both business and nonbusiness entities and has been declared reliable and valid (Bass & Avolio, 2000). The questionnaire is a self-reporting form. Each question is answered using a 5-point Likert scale. Scoring consists of assignment of points, from 0 to 4 for answers, where 0 = *not at all* and 4 = *frequently, if not always*. Permission was sought and obtained to make modifications to the MLQ to tailor the questions and statements to the current study.

Most of the survey content is based on the MLQ (Avolio & Bass, 1991), was designed to measure transactional and transformational leadership skills. The MLQ is a valid and reliable research instrument widely used in leadership research to examine leadership skills and practices, covering all domains of the two leadership styles.

Closed-ended statements on the questionnaire address three forms of transactional leadership, such as contingent reward, management by exception active (MBEA), and management by exception passive (MBEP) with five domains of transformational leadership, notably intellectual stimulation (IS), individual consideration (IC), idealized influence attributes (IA), idealized influence behaviors (IB), and inspirational motivation ([IM] Alsayed, Motaghi, & Osman, 2012).

### **Research Design Rationale**

The mixed method research design chosen for this study was appropriate because it related to the purpose of the study and problems addressed by the study. The research design for the study was determined after considering the aims and formulating a hypothesis. A survey-based design using some survey measures was employed to assess perceptions and attitudes of employees toward the variables in the study.

### **Research Questions**

Ideally, this research might result in an improved understanding of transactional, transformational, and innovation leadership styles in accounting firms. In the immediate pursuit of discovering the effect of combining transformational and transactional leadership qualities with innovation on organizational performance, innovation is perceived as a complicated matter constituted by individual employee engagement and productivity driven by motivation and commitment. With this understanding in mind, this study was used to examine relationship between these vital organizational indicators to suggest recommendations for effective accounting leadership. In line with these goals, a list of research questions were formulated to govern the overall research process. The research questions were as follows:

1. What, if any, relationship exists between the transactional leadership style and employee performance in large accounting firms in Massachusetts?
2. What, if any, relationship exists between the transformational leadership style and employee performance in large accounting firms in Massachusetts?
3. What, if any, relationship exists between transactional/transformational leadership styles and innovation in large accounting firms in Massachusetts?
4. What, if any, relationship exists between leaders' innovation skills and employee performance in large accounting firms in Massachusetts?
5. What is the perceived relationship of transformational leadership, transactional leadership, and innovation to overall organizational success in large accounting firms in Massachusetts?

### **Research Hypotheses**

The primary focus of this study was to examine the relationship between leadership style and organizational success. This focus was explored by distinguishing different types of leadership and innovation strategies in large accounting businesses. Innovation involves being conscientious. Although implementing innovation sounds like an easy process, many organizations are not innovative. The research questions in this study were constructed to be answered mainly using a quantitative methodology, with the exception of Hypothesis 5, which was assessed with qualitative data. The null and alternative hypotheses directed the purpose of this quantitative study.

Research hypothesis ( $H_A$ ): Leadership and innovation affect the organizational success.

Null hypothesis ( $H_0$ ): Leadership and innovation have no effect on organizational success.

In searching for answers to the research questions, this study tested the following hypotheses:

H1<sub>A</sub>: There is a statistically significant relationship between transactional leadership style and employee performance in large accounting firms in Massachusetts.

H1<sub>0</sub>: There is no relationship between transactional leadership style and employee performance in large accounting firms in Massachusetts.

H2<sub>A</sub>: There is a statistically significant relationship between transformational leadership style and employee performance in large accounting firms in Massachusetts.

H2<sub>0</sub>: There is no relationship between transformational leadership style and employee performance in large accounting firms in Massachusetts.

H3<sub>A</sub>: There is a statistically significant relationship between transactional/transformational leadership styles and innovation in large accounting firms in Massachusetts.

H3<sub>0</sub>: There is no relationship between transactional/transformational leadership styles and innovation in large accounting firms in Massachusetts.

H4<sub>A</sub>: Innovation skills and competencies of leaders have a statistically significant relationship to employee performance in large accounting firms in Massachusetts.

H4<sub>0</sub>: Innovation skills and competencies of leaders have no relationship to employee performance in large accounting firms in Massachusetts.



H5<sub>A</sub>: Employees of large accounting firms in Massachusetts perceive a strong relationship between transformational leadership traits, transactional leadership traits, innovation, and overall organizational success.

H5<sub>0</sub>: Employees of large accounting firms in Massachusetts do not perceive any relationship between transformational leadership traits, transactional leadership traits, innovation, and overall organizational success.

Hypothesis testing theory was used to determine the limits of the population to solve problems related to large accounting business and operations management. In hypothesis testing, a researcher can reject the null hypothesis when the analytical evidence suggests that it is far more likely that the alternative hypothesis is true. Hypothesis testing is conducted for making decisions about values of population parameters. Hypothesis tests are used when trying to prove that a variable is less than, more than, or not equal to a value. Many situations need an alternative hypothesis that focuses on a direction (e.g., the population mean is less than a specified value, or the speed which customers are served is of paramount importance to the success of the service).

Guided by organizational theory, this quantitative correlational and comparative study examined the extent to which transactional, transformational, and innovation leadership style relates to business performance in the accounting business industry. The independent variables of transactional, transformational, and innovation leadership style were measured by a leadership instrument (the modified MLQ), and the dependent variable of employee performance was calculated by economic value added. The research questions addressed whether a relationship exists between transactional, transformational, and innovation leadership style and business

performance, and whether the transactional, transformational, and innovation leadership style yielded any change in each variable.

Challenges to large accounting business sustainability threaten a free enterprise economy. The novel business paradigm of emerging innovation has demonstrated the potential for even greater economic value and societal benefit. According to Cram et al. (2009), “The third error arises from matched, and choice-based samples are nonrandom, and the numbers of observations in the sample outcome groups and matched sets are not proportional to the sizes of the corresponding groups in the general population” (p. 3).

### **Reliability and Validity of the Research**

#### **Validity**

Because this research involved the use of a mixed research methodology, its findings are subject to considerations of validity and trustworthiness. Most of the survey content stemmed from the original MLQ (Bass & Avolio, 2004), which was modified (with permission); and it was used to measure employees’ performance and leadership styles. Khalid, Abdullah, and Kumar (2012) stated that the appropriate choice of instruments is a critical element of the research process. Since its introduction in 1985, the MLQ has been widely used and empirically validated as a tool for leadership research. Today, the MLQ is “the standard instrument for assessing a range of transformational, transactional, and non-leadership scales” (Loethen, 2008, p. 37). Validity and reliability of this research tool have been demonstrated and indicate its high predictability of leader performance in various organizations (Alsayed et al., 2012).

Empirically proving the credibility of the MLQ as an instrument for leadership studies allows claiming the presence of construct validity in the present inquiry.

According to theory, construct validity is achieved when the developed method and instrument of data collection comply with the pursued research objectives (Woodrow, 2014). Apart from construct validity, scholars distinguish internal validity, conclusion validity, and external validity of the assessment of quantitative research findings (Rasinger, 2013). Validity is a central concern for quantitative research because it determines accuracy and relevancy of defined variables, hypothesized relationships, testing procedures, and generated conclusions.

Internal validity is accountable for logic reasoning in designing research process procedures to achieve the established research objectives. This criterion requires quantitative researchers to provide a sound rationale for suggesting a cause-and-effect relationship between determined variables (Rasinger, 2013). In prior studies in the field, the researcher defined transactional leadership, transformational leadership, and innovation as independent variables that produce an effect on the dependent variable of organizational performance. Because organizational performance is a broad and complex matter, the author tested the concept of organizational performance through employee performance and its drivers: commitment, motivation, and satisfaction. These dimensions of employee performance stemmed from prior empirical research. The overall scope of variables is consistent with aspects assessed by the MLQ, which proves the internal validity of this research design.

Conclusion validity implies an objective representation and interpretation of numerical results during data collection and analysis procedures (Rasinger, 2013). The instruments for this study (the MLQ and innovation competencies defined by scholars) were modified (with permission). Administering this survey allowed the collection of primary objective data with no risk of harm to the participants or their

employers. The process of data analysis was not subject to researcher or participant bias because most of the questions on the questionnaire are derived from the validated MLQ instrument. Using statistical software packages, the cause-and-effect relationships between variables were tested and the statistical relationship between them were illustrated through graphs and tables.

External validity involves the ability to generalize research results to wider populations and different locations. It requires the applicability of the created research design to same-subject studies involving other samples and settings (Woodrow, 2014). In the pursuit of external validity, the research process was thoroughly planned and a globally appraised tool for data collection enables duplication of this research design by followers. With regard to validity criteria serving to assess the quantitative research quality, this study design illustrates alignment of the method, instrument, and data collection and analysis procedures with research goals pursued. On these grounds, the analysis produced generalizable conclusions for interactions between leadership, innovation, and organizational performance in the accounting industry.

While quantitative findings of the executed project must comply with validity requirements, qualitative results follow criteria for trustworthiness that implies credibility, transferability, and dependability. The credibility requirement concerns accuracy during data collection and analysis procedures. Transferability refers to the applicability of findings to other samples and settings, and dependability is accountable for the overall alignment of the research process with the established aims (Pitney & Parker, 2009). The MLQ served as the foundation for both the quantitative and qualitative components of the survey questionnaire. Because of the proven validity of the original MLQ, it is possible to claim that data that were

collected during the qualitative research phase of this study are credible and reliable. MLQ-based open-ended questions fit the overall research design and pursued goals.

### **Reliability**

According to Hammersley (as cited in Newman, 2008), reliability is a dimension of validity that indicates the reciprocal relationship between two elements. In general, validity assesses the extent to which the developed research design, formulated hypotheses, or collected data measure or reflect intended goals or measurements. In this vein, reliability estimates measurement errors to help researchers assess research validity. In other words, the proven validity signifies the irrelevance of determining reliability (Newman, 2008). According to Creswell (2014), reliability is external validity, referring to the repeatability of results that were demonstrated, indicating the executed study was valid and reliable.

### **Theoretical Framework**

This study used transformational, transactional, and innovation leadership theory as the framework to guide the research into how accepted leadership practices and transformational leadership affects businesses outcomes and the many leadership development components that focus on transformational leadership (Yukl, 2010). These types of leadership styles have been linked with employee outcomes (Medley & Larochelle, 1995), organizational outcomes (Corrigan, Lickey, Campion, & Rashid, 2000) and organizational performance (Felfe, Tartler, & Liepmann, 2004).

Proponents of leadership theory include Burns (1978a), Bass (1985), and Kouzes and Posner (1987, 2002). Burns was one of the first scholars to study the concept of transformational leadership. Burns explained leadership in along a spectrum, with transactional leadership at one extreme and transformational

leadership at the other extreme. He described transactional leadership as mainly focusing on the exchanges that occur between leaders and followers.

Bass (1985) expanded Burns's (1978a) transformational leadership theory. Bass defined a transformational leader as one who motivates followers to do more than expected of them, and leaders who practice transformational leadership demonstrate high leadership efficacy (Bass & Riggio, 2006). Kouzes and Posner (1987, 2002) discussed fundamental practices that enable leaders to accomplish extraordinary tasks. Leaders lead by example; they walk the walk and talk the talk. Organizational performance is directly related to effective leadership and leaders' ability to satisfy organizational goals (Erkutlu, 2008). Inspiring with a shared vision implies having a vision that challenges others to transcend the status quo to do something for others or for the greater good. The MLQ is an accepted tool for measuring transformational leadership and the perception of leadership effectiveness (Pounder, 2008; Sadeghi & Pihie, 2012; Walumbwa, Orwa, Wang, & Lawler, 2005).

### **Overview of Methodology**

The study used a mixed methods research design to evaluate the effects of leadership styles on organizational performance, and the importance of commitment to innovation for organizational success in large accounting firms in Massachusetts. The study data consisted of responses to the survey questions that were evaluated in the quantitative and qualitative phases of the research, and data from annual reports to identify financial success of the businesses. Descriptive and inferential statistical tests were performed on the responses to the questions in the quantitative portion of the study, while thematic analysis was conducted on the responses to the open-ended questions in the qualitative phase.

The survey research method was used to gather information on the leadership types of the large accounting firms using a modified version of the MLQ. The MLQ consists of a series of questions to assess the frequency of occurrence of leadership styles. Four open-ended questions related to leadership were included in the survey to represent the qualitative portion of the study.

### **Assumptions**

The basic assumptions underlying the purpose of this study were:

1. Transformational leadership, according to Avolio and Bass (2004), is positively correlated with transactional leadership styles in effective leaders. In conducting this research study, it was assumed that transformational and transactional leadership styles are perceived to be present among leaders in large accounting firms.
2. The MLQ can be used in large accounting firms without any barriers or problems, and that the proven reliability and validity of the MLQ extend to modifications made to the instrument to focus on the industry of interest in this study.
3. Finally, the research study was built on the assumption that the participants would provide honest feedback to the survey questions.

### **Scope and Limitations**

The scope of this study was to investigate the relationship between transformational and transactional leadership styles and employees' performance in large accounting firms in Massachusetts. Limitations associated with this research study were based on the nature of the study and the method of data collection. The use of an online anonymous survey to collect data and the use of a third party to recruit participants for the survey created a limitation base on potential participants

for the study. Prospective participants were not subject to further screening to validate their eligibility prior to the informed consent process.

There were some constraints in the study. First, the employees and first-line managers who completed the leadership survey might answer the questions based on their perception of the leaders in large accounting firms, as opposed to assessing the actual leadership styles based on behaviors and actions. Next, the study was limited to a survey of employees and first-line managers of large accounting firms in Massachusetts, with the assumptions that the results would be representative of all large accounting firms in Massachusetts. Given the consistent and common nature of the work in each large accounting firm, this limitation should not be an issue.

There was some risk that this type of generalization cannot be applied to other organizations. There was also the possibility the results were too narrowly focused on large accounting businesses, which might limit the generalizability of the results to other sectors of service businesses. Quantitative data collection was limited to a 5-point Likert scale and a comparison of ratios published in annual reports. The study used interviews, thus, making it possible that participants answered the questions in a socially desirable way (Holtgraves, 2004). These limitations might create the potential for the data to be flawed, which might have an impact on the results of the study.

### **Delimitation**

This study involved the use of survey instruments to discover the relationship between transactional and transformational leadership styles, performance, and the importance of commitment to innovation for organizational success. The study involved participants from many different large accounting firms in Massachusetts. If



the results proved useful to large accounting firms in Massachusetts, accounting firms in other locations might use the study as a model for their leadership development.

### **Definition of Terms**

**Follower performance.** Follower performance is defined as task performance, which is work performed by the individual as part of his or her job responsibilities (Biswas & Varma, 2011). In-role performance is described as the accomplishment of tasks related to one's position, while extra-role performance involves voluntarily performing duties beyond the scope of one's formal job description (Biswas & Varma, 2011). For this study, performance refers to productivity, efficiency, quality, innovation, and the output of employees.

**Group performance.** Group performance is not well defined in the literature and appears to be dependent on the industry evaluated and expected outcomes. Definitions for group performance include the following: achieving team outcomes (Gundersen et al., 2012), and as teamwork based on the quality of interpersonal relationships (Dionne, Yammarino, Atwater, & Spangler, 2004). In the present research study, group performance is defined as the quality and timeliness of the group's work accomplishments.

**Innovation.** Innovation is the introduction of innovative good or service that considerably enriched quality of good or service (Cohen, Walsh, & Arora, 2008).

**Leadership.** Leadership is vital in implementing decisions successfully and influences followers to pursue goals and to fulfill the mission of the organization via different types of leadership styles (Day, 2000; DuBrin, 1998; Hernez-Broome & Hughes, 2004; O'Connor & Day, 2002; Sharma & Bajpai, 2010; Wallace & Weese, 1995).

**Leadership styles.** Leadership style is defined as the way leaders lead. Styles include transformational, transactional, servant, charismatic, and laissez-faire leadership. Leadership style is a reasonably persistent model of behavior that affects the organizational environment and provides strategic leadership in the public and private sectors (Barbuto, 2005; DuBrin, 1998; Hernez-Broome & Hughes, 2004; Schimmoeller, 2010; Vesterinen, Isola, & Paasivaara, 2009; Wren, 1994).

**Multifactor Leadership Questionnaire (MLQ).** The MLQ is an instrument developed by Burns (1978b) and improved by Bass and Avolio (2004).

**Transactional leadership.** Transactional leadership is characterized by the motivation of subordinates to perform and leaders offering rewards based on performance. Transactional theory supports exchanges and provides rewards to followers or punishes them for not performing to standards. Transactional leaders see their relationship with their followers as a measure of give and take, and they see a close association between goals and rewards. Rewards are provided for the accomplishment of defined tasks, and punishment is meted out for underachievement (Bass, 1990b; Bryant, 2003; Ho et al., 2009; Jamaludin, Rahman, Makhbul, & Idris, 2011; Yukl, 1989, 2002).

**Transformational leadership.** Transformational leadership is a style of leadership in which the leader influences, inspires, and intellectually stimulates followers to achieve visionary goals that put the organization goals ahead of individuals' goals. Transformational leadership is the process by which leaders inspire individuals in teams and organizations to strive for higher results by focusing on the goals of the group or organization; a moral influence underpins transformational leadership (Bass, 1990a; Bass & Bass, 2008; Burns, 1978b; Wang & Howell, 2010; Watson, 2009).

## Summary

This study investigated the extent to which the leader's leadership styles perceived to affect employees' performance in large accounting firms. Its purpose was to determine if transformational and transactional leadership styles and its practice have a direct and significant relationship with organizational performance at large accounting firms and to explore how the leader behaviors of managers of accounting firms in Massachusetts, improve their employees' performance.

## Chapter 2

### Literature Review

The literature review focuses on the theory and practice of leadership. By focusing on leadership theories, the literature review was intended to show how transformational, transactional, or innovational leadership can play a central role in determining the quality and sustainability of services offered by a large accounting firm. This literature review also provides a review of the history of leadership in large accounting firms, including a comparison of leadership needs of large accounting firms. This study explored the role of innovation in large accounting firms, focusing on the role of transformational, transactional, or innovational leadership styles in determining innovation implementation. This review also highlights limitations of the current literature, which provide justification for the present study.

Employees' poor performances create a loss in revenue; and researchers have linked shareholder value, revenue and profit to specific leadership types and performance (Clark & Allen, 2012; Groves & LaRocca, 2011a). A leader's role in large accounting firms is critical to ensuring that employees achieve targets or goals; leaders also manage the employees on a day-to-day basis (Homan & Greer, 2013). Leaders have a variety of responsibilities that can either help or impede employees from achieving their goals, thus having an impact on large accounting firm employees' performance. Leadership sets the stage for employees to be challenged to think at a strategic level and use critical thinking skills to solve problems (Alimo-Metcalf & Alban-Metcalf, 2001). Leadership sets this stage through the leader's involvement and creation of a climate that is supportive, encourages innovation, and provides incentives to motivate employees (Kouzes & Posner, 2007).

Prior empirical research in the field provides sound evidence of a positive relationship between strategic results-driven leadership and organizational performance, as well as organizational innovativeness and leaders can help employees achieve success with effective leadership styles (Avolio & Bass, 2004; Bass & Riggio, 2006; Kouzes & Posner, 2007). However, due to its relationship with creativity, the concept of innovation is not widely incorporated in the accounting sector and its leadership framework. Also, the existing body of knowledge lacks clarity on specific leadership qualities that facilitate development and utilization of innovation competencies to boost organizational performance and productivity.

Transformational leadership is an effective leadership style that is crucial to organization performance. The leader's style affects organizational success or failure based on followers' willingness, ability, and readiness (Northouse, 2007; Salvatico, 2006). A company cannot succeed without service improvement and innovation. An organization needs to operate efficiently in a service economy. Innovation and leadership strategy are necessary for competitive advantage in the large accounting business. At issue is how firms can improve innovative performance change in management procedures for the service industry when they are in the service phase.

Drucker (2002) suggested that innovation is about making a difference, and many businesses struggle to innovate. Innovation can be unpredictable, expensive, and time-intensive. Drucker stated that when companies get an opportunity, their leaders should decide where they could make the greatest difference, hone in on that distinction, and continually evaluate and reassess issues. Influencing these outcomes requires effective leadership. Leadership is a complex concept without a precise definition or a single model for success. Throughout the decades of its examination, many leadership models and theories have appeared and evolved. Most revolve

around leaders working toward a goal with stakeholders, striving to adapt to challenges inherent in situations.

Lichtenthaler (2011) stated innovation and strategies support the development and adoption of innovations, and innovation is a hot topic in 21st-century businesses. These strategies are often technology-oriented, customer-oriented, or market-oriented. The conceptual framework suggests that firms may affect their transaction costs in innovation markets over time by developed absorptive, connective, and capacities innovation (Lichtenthaler, 2011). Companies try to increase their innovative capacity through collaboration. Organizations want to deliver multiple determinants at different levels, from the individual to the organizational, to improve their open innovation management (Lichtenthaler, 2011). Change is the ubiquitous in the business environment. The leadership style that each company selects depends on the company culture, mission, and industry requirements. The leadership style that a company adopts can affect management, production, and general confidence and success of employees.

### **Leadership**

Two popular styles of leadership are direct supervision and laissez-faire leadership styles. The laissez-faire approach involves *hands-off* leadership. In organizations where laissez-faire leadership is practiced, the power of decision making is given to team members or employees, who take responsibility for their actions and decisions. Laissez-faire leadership is an approach that requires an abundance of trust and confidence in the group. This leadership style is not commonly used because it depends on employee effort. A friendly person would be a prominent laissez-faire leader. Regardless of the supervisor's role, employees must still have goal-directed behavior. Laissez-faire leadership theory provides the freedom of choice for

employees, involves delegating tasks with minimal direction, and leaders do not boost the motivation level of employees to perform with high expectations; for the most part, employees' needs are ignored (Hinkin & Schriesheim, 2008; Schwepker & Good, 2010).

Leaders have both personal and business goals to achieve. Motivating employees to align with organizational goals is often more challenging than motivating them to work toward their personal goals. To achieve corporate goals, a competent leader must find a way to link subordinates' personal goals with those of the corporation. To accomplish this objective, the leader must make a conscious effort to understand employee motivation. The leader must know employee strengths, weaknesses, and overall goals. The leader may use path-goal leadership theory to maximize the effectiveness of subordinates through goal alignment. Combining expectancy theory with the path-goal leadership theory is a powerful concept for achieving organizational goals. Leadership success is dependent on alignment of leader behaviors, organizational dynamics, and employee motivation. Research findings indicate that transformational leaders' inspirational motivation may increase self-efficacy and team efficacy in exchange for follower motivation by providing structure to the task. Transactional leadership is considered an essential part of leadership, and leaders must understand and manage these styles well (Nahavandi, 2012; Yukl, 2010).

By the 1980s, the focus of thinking about leadership revolved around the great man theory, which describes the leader as an individual who can influence followers. The great man theory of leadership is notable in that it does not tell us how leaders influence; it only says that they are charismatic. Their sheer force of will brings their

followers along. Push followers too hard, or in a direction they do not like, and they can only leave.

Leadership is deeply involved with meaning and belief systems represented by a wide variety of theoretical approaches (Bass, 1990b). Some theorists have attributed leadership to individual skills, traits, and characteristics that belong to the person. Others have indicated that leadership is a quality that emerges situationally. The components of leadership are categorized as capacity, performance, responsibility, participation, and status. Situational theories of leadership are often used to examine the features of involvement by the group, as well as the features of the individual leader. Leadership style depends on both on the individual leader and on the situation or context in which the leader acts.

Transactional leaders inspire subordinates to perform by contingent reward, which the leader provides in return for an agreed-upon performance. In this dynamic, the subordinate has an understanding of what he or she must do, and the leader motivates subordinates to meet these goals. In contrast, management-by-exception might be applied when subordinates fail to meet established standards. According to Kark and Shamir (2002), transformational leaders help individuals and society as a whole to recognize and try to achieve their highest potential. Transformational leaders are values-oriented, and such leaders use a leadership style and organizational change that are both positive and adverse.

Transformational leaders are more effective than transactional leadership because they support behavior change in followers. Burns (1978a) asserted transformational leaders may expand their followers' portfolio of needs and maintain high moral character that influences their behaviors; the leader's high moral character



may transform followers' self-interest, establish and maintain relationship with followers, and may promote followers' need to achieve a higher Maslow level.

This study took a measurement of leadership using situational theories of leadership. Situational theories of leadership focus on leadership behavior and supporting causes of the situation rather than on leadership personality traits. The most important foundations of these situational theories of leadership are reviewed here. Yukl (2006) stated that effective leadership was related to the advancement and success of leaders.

The path-goal theory of leadership suggests that leaders can affect work group members' levels of satisfaction, motivation, and performance. Making rewards on reaching performance goals is the primary method for achieving results in this model. A leader can help group members to achieve rewards by clarifying the paths to these performance goals and removing obstacles to performance. The path-goal theory stipulates that situational conditions should dictate the choice of leadership style. According to path-goal theory, all four leadership styles can be used by a single leader in varying work-related situations. The theory also states that leader behavior affects both subordinate performance and satisfaction.

Cognitive resource theory emerged out of trait research, showing that people who hold leadership positions are slightly more intelligent than subordinates. This intelligence reaches an optimal level, but beyond this level, leaders have difficulty communicating and relating to future followers. The cognitive resource theory suggests that perceptive components cannot be discounted in explanatory models of leadership effectiveness. Because cognitions are a vital part of the creativity construct, it is cognitive ability, the faith that provides at least indirect support for the idea of there being a relationship between leadership behavior and creativity. Also,

many other models have associations with cognitive abilities and complexities, which support the notion of cognitions as essential to effective leadership.

These models postulate that leadership styles can disagree, and that these discrepancies can produce different outcomes. Another similarity in the models is that most attempt to predict job performance as an index of leadership effectiveness. However, these models ardently disagree about their conceptualizations of situational variables. Because there has been no definitive research supporting any one model over another, managers' choice of leadership model depends on individual goals and a given situation.

Other findings confirmed that transformational leadership predicts performance at the individual and team levels (Barling, Moutinho, & Kelloway, 1998; Hargis, Watt, & Piotrowski, 2011; Wang et al., 2011). Studying and understanding the different skills and leadership behaviors of leaders who have achieved success can provide practical knowledge for leaders and organizations. It is necessary to understand how personal values and ethics define a leader's behavior toward others. A leader must recognize the opportunity to eliminate outdated methods, and this elimination of outdated notions requires a team effort. Such leaders can provide encouragement to the entire team, inspiring a creative, innovative, interactive, and supportive work environment.

Effective leaders must be able to employ several different leadership abilities. Current research studies point to the importance of emotional intelligence in role performance, and leadership practitioners are paying more attention to emotional intelligence models that improve organizational performance (Corona, 2010; Krishnaveni & Deepa, 2011). The primary function that an organization must realize is the regularization of activities to provide a reasonable basis for efficient operation.

The company must maintain the personal integrity that allows the leader to respond to events in reliable and predictable ways.

According to Bass (as cited in Yang, 2012), transformational leadership elevates the level at which humans conduct themselves, increases employee satisfaction, and delegates to followers the authority to perform any necessary steps efficiently. Fruitful and effective leaders can get the full use of their personal intelligence, passion, and commitment because they are optimistic about their capabilities and confident about the eventual success of their efforts. One approach for outstanding leadership is to have a work environment that supports the entire business daily. The integration of theoretical arguments, empirical results, and logical arguments leads to the conclusion that strong leadership is crucial in any business.

A leader can be helpful in all circumstances; however, in general, the company must carefully attend to various situational factors in either selecting a leader for a position or a leader to choose a leadership style. Charismatic leadership provides insight into understanding and identifying connections between transformational and charismatic leadership styles and outstanding opportunities for development (De Hoogh et al., 2005; Judge & Bono, 2000). Effective leadership requires a relationship between leaders and subordinates, and these relationships are often recognized by their leadership styles and influence (Burns, 1978b). The emotions, motivations, satisfaction levels, and performance of subordinates are essential. Because other factors beyond subordinates' performance contribute to the effectiveness of a given pattern of leadership and the extent to which a leader has authority over subordinates, the manager cannot make a sudden change in leadership style without triggering sudden changes in subordinate emotions and performance. However, leaders who are

aware of those additional factors can use these factors in ways that improve employee performance and emotional well-being.

If leaders assume their ability to influence subordinates is limited only to their interaction with them, they are going to have little effect. Rather, leaders must understand and manage their strengths to improve the work experience of subordinates. Burns (1978a) suggested transformational leaders employ their values to align and motivate followers to achieve common goals, and transformational leaders often develop leadership in others who adopt the leaders' values and goals (Burns, 1978a). Burns introduced transformational leadership and suggested transformational leaders employ their values to align and motivate followers to achieve common goals. In contrasting transformational leaders with transactional leadership, Burns explained that the two styles together, when paradigms are aligned with values and purpose is developed, create a powerful motivational environment for transformational leaders. Transformational leadership speaks for people and helps them to develop harmonious relationships; transformational leaders listen to their followers.

Leaders have a vision that they want to achieve, and their followers are required to fulfill the goal. In possessing emotional intelligence, leaders have a sense of kindness for others that often lead to followers' needs being placed above those of the leader. Such leaders often have empathy for their followers, which often results in sensitivity to the needs of the follower (Connelly, Gaddis, & Helton-Fauth, 2002). As R. L. Hughes, Ginnett, and Curphy (1993a) stated, "Note that while a job perfect in all these features might seem intrinsically motivating, this model is not just another way of looking at fundamental motivation" (p. 334). Enabling followers to develop into leaders on their own will allow firms to be more successful than if they only show

subordinates what to do. Subordinates who are more motivated are more productive and provide the most value possible to organizations.

R. B. Smith (1994) stated, "Today's leaders need to help others achieve their power and dignity" (p. 471). Gardner (1987) reported that effective leaders not only deal with the day-to-day administrative duties of the organization, but also attend to the needs, hopes, and ideas of their employees. When leaders respect others' feelings and thoughts, the others develop a sense of confidence among the leaders and are more likely to become followers. Leadership is also about properly and professionally handling any situations that may arise, without allowing emotions to become obstacles to performance.

Leadership has to do with identifying required tasks, determining how to complete these tasks, and motivating others to assist (Burns, 1978a). Leadership is a multifaceted construct, and effective leaders must motivate their followers to take action and achieve required tasks. Followers must trust the leader to have integrity, vision, and a genuine determination to succeed (Connelly et al., 2002). The leader who fails or appears to fail in any of these roles will lose followers. Leaders have to be aware to motivate their followers, and they need charisma to get their followers excited to complete their plan. Followers prefer leaders who develop a vision and establish their plan.

Gardner (1990) argued that everyone in an organization should be able to act as a leader. According to Gardner, leadership can be learned. Effective leadership requires characteristics, traits, skills, knowledge, and experience. Leaders are useful when they hold those attributes and keep followers who believe in them and their ideas.

Burns (1978b) found that transformational leaders begin the process as transactional leaders, but require an additional factor to combine the two forms of leadership. Leaders who choose to combine the two types of leadership approaches are strategic in their attempts to extract more performance out of their followers. Couto (1992) explained that transformational leaders transform subordinates into more productive members due to their higher levels of enthusiasm.

### **Leadership Theory**

According to Armstrong and Muenjohn (2014), the existence of over 250 definitions of leadership is sufficient evidence of the vast interest in leadership studies between leaders and followers. Leadership theories evolved from behaviors that support need for future success to measure leaders' performance and effectiveness, and increasing social awareness of followers and diversity leadership styles influences employees' performance and organizations effectiveness (Ghorbanian, Bahadori, & Nejati, 2012; Ho et al., 2009; Martinez-Mendez, Serafin Vera Munoz, & Monserrat Vera Munoz, 2013; McLaurin & Al Amri, 2008; Schyns, Kiefer, Kerschreiter, & Tymon, 2011). Conversely, Foti, Hansbrough, Epitropaki, and Coyle (2017) argued that the existence of many definitions of leadership is evidence of lack of consensus among researchers. The great man theory was among the first theories to define leadership, introducing the idea within the social and business context. According to Brookes, Edwards, and Dunn (2014), the great man theory defined leadership as character traits of individuals, such as charisma or persuasion. The theory led to the development of leadership as a quality possessed of extraordinary people who influence other individuals in working for the common goals (Junker & van Dick, 2014). However, the great man theory of leadership was too broad; authors of the theory had difficulty explaining contradictory traits in leaders.

Leadership theory development strives to account for the disparity in leadership behaviors. The focus on leadership behavior led to the development of different leadership theories such as the democratic leadership theory, in which leaders consult stakeholders before making decisions (Junker & van Dick, 2014). Leadership behavior has been the focus of several leadership theories, such as autocratic leadership, which defines strong leadership as that which can produce decisions independent of followers. According to Armstrong and Muenjohn (2014), defining leadership based on the leadership behavior is not appropriate; leaders may behave differently in the future. Depending on changes in organizational culture, a dictatorial leader may need to adopt the views of other stakeholders. Developing leadership theory around leadership character traits neglects the role of the environment in defining leadership actions.

Modern views on leadership have focused on the ability to influence change in the dynamic world. Because of globalization, leaders play a crucial role in guiding employees to deal with any challenge that may affect their business (Junker & van Dick, 2014). Leadership theory often views leaders as managers tasked with not only managing resources, but also managing employees to work for the goals of the organization. Leaders' actions may perceive to influence the success or failure of an organization that aims at a shared vision.

Leadership styles differ on leadership focus. Some leaders can concentrate on managing the task implementation. Other leaders may focus on managing the employees who fulfill the different functions (Junker & van Dick, 2014).

Contemporary times have brought about a number of great leaders such as Steve Jobs and Mark Zuckerberg, who have focused on implementing change within their organizations. Such leaders change the world by generating new ideas or new ways

of doing things. According to Brookes et al. (2014), globalization has led to a rethinking of the leadership theory as researchers have focused on different leadership roles.

In understanding leadership theory, it is evident that many researchers have concentrated on the role of leadership within organizations. According to Hannah, Sumanth, Lester, and Cavarretta (2014), every leadership expert is concerned with understanding how different leadership styles correlate with the functions of an organization. Brookes et al. (2014) asserted that leadership might influence the performance within an organization. The leader's attitude and behavior may decide whether the performance within an organization is high or low.

According to Hannah et al. (2014), there is no relationship between high leadership indexes and organizational performance. However, the high leadership index creates the potential for improving performance of the market. The high leadership index may act as a wellspring of improving the reputation of an organization and affecting its performance in a positive manner.

According to Brookes et al. (2014), there is a relationship between employees' level of satisfaction and leadership within an organization. When leadership decision making reflects the needs of employees, employee commitment and satisfaction are likely to increase. In support of this thesis, Armstrong and Muenjohn (2014) found that dictatorial leadership is a major influence in creating employee dissatisfaction. In ignoring the views and opinions of employees, leaders risk poor performance and resistance due to employee dissatisfaction within the organization. Such employees will have low motivation for working toward organization interests.

According to Gatling, Kang, and Kim (2016), the leadership style adopted by a firm determines success in change implementation. Specifically, the ability of



leaders to communicate changes affects the degree to which employees accept such changes (Junker & van Dick, 2014). Organizations known for their innovation, such as Google, have leaders who can rally their employees behind change implementation. Some companies, such as the Ford Motor Company, have thrived for years with a leadership that supports change (Junker & van Dick, 2014). With continuous change, companies survive through creating innovation.

In researching modern leaders, M. Smith (2014) found that innovation is directly proportional to a high leadership index. Those with a high leadership index are likely to lead organizations that are innovative and produce new products and services (Almer, Lightbody, Single, & Vigilante, 2011). Leadership is also a reason in influencing the level of experienced innovation within an organization (Almer et al., 2011). According to Brookes et al. (2014), the leadership style that allows employees to implement their personal goals when working with an organization is likely to influence innovation on the services or products offered. However, the character traits of leaders are likely to influence their impact on the innovativeness of organizations. There are different kinds of innovative leaders. Innovative leaders such as Steve Jobs might also have autocratic traits; they make decisions without consulting their employees (Lang, den Hartog, & Hulsheger, 2014). Other innovative leaders, such as Mark Cuban, are democratic; they consult widely in coming up with innovations.

### **Transformational Leadership**

Transformational leadership involves the ability of leaders to motivate employees toward organization success and enable others to follow. These leaders challenge the way, inspire followers to change expectations, and work toward shared vision and common goals. They are focused on leaders who use motivation,

inspiration, and motivate followers to do good work by setting the right example and encouraging followers (Bass, 1985; Bennis & Nanus, 1985; Burns, 1978b; Hargis et al., 2011; Schwepker & Good, 2010; Sosik & Cameron, 2010). Transformational leaders help others to visualize situations in a different manner that stimulates the best outcomes for the organization (Bass, 1985; Bennis & Nanus, 1985; Burns, 1978b; Fowler, 2008; Tichy & DeVanna, 1986). According to Burns (1978b), leaders change their behavior depending on the situation, maintaining that individual circumstances require different styles of leadership. However, others concluded that because the leader's personal characteristics were established, so was his or her leadership style. Transactional leadership relies on influence within the organization to use authority in rewarding followers and inspire and motivate individuals to exceed their performance norm by inspiring followers to focus on benefits to the organization (Masi & Cooke, 2000; Russell, 2001; Soucie, 1994; Yukl, 2002). In contrast, transformational leadership is consultative, collaborative, and consensus-building.

The transformational leadership model attempts to encourage critical thinking in a leader as well as in the follower (Poulson, Smith, Hood, Arthur, & Bazemore, 2011). In addition, the transformational leader's goal is to transform the values of followers. The fundamentals that differentiate transformational leaders may be liked, trusted, and accepted by motivating followers and leaders to perform beyond their expectations (Avolio & Yammarino, 2002; Yammarino & Dubinsky, 1994), supporting the idea that goals and ethics of transformational leadership are just as important to the followers as they are to the leader (Tichy & Devanna, 1990).

Transformational leadership includes empowering and influencing followers to achieve organizational goals. Transformational leaders have to create new visions for their companies that address technological changes and changes in the economic

landscape, inspiring followers by a focus on outcomes and the need to emphasize organizational goals over personal goals. Transformational leadership is a learned skill that leaders can develop (Bono & Judge, 2004; Firestone, 2010; Yukl, 2002, 2006). Sama and Shoaf (2008) viewed transformational leadership as developing honest communities, promoting cohesion around organizational goals and sponsorship of a common good. Shamir, House, and Arthur (1993) viewed transformational leadership as developing staff to create a learning environment, taking a principled approach to leadership within a learning society, and leaders leading by example.

Three characteristics associated with transformational leadership have been identified: intellectual stimulation, personal consideration, and charisma (Hitt, Miller, & Colello, 2006). Although charisma is difficult to define, organizational behavior theorists have conceptualized charisma as a personality trait. House's (1977) charismatic leadership theory connected charisma to transformational leadership. Although House was also credited for his formulation of the path-goal theory, which highlighted transformational leaders' effect on followers' motivation, House proposed charisma as a feature of transformational leadership (Hitt et al., 2006). The leadership process is a continuing search, identifying abilities to rise to the challenge, encouraging teammates, and remaining goal-focused while expectations are established. According to Bolkan and Goodboy (2011), research suggests that transformational leaders are trusted and appreciated by their followers.

The concept of transformational leadership encompasses four dimensions of leadership behavior: (a) inspiring motivation toward an organizational vision; (b) fostering influence toward organizational purpose and ideals; (c) promoting different and diverse thinking; and (d) communicating through personalized interactions, such as coaching and mentoring (Grant, 2012). Transformational leadership expands

beyond leaders aligning interests with subordinates. Leaders also promote shared leadership paradigms by using charisma to engage subordinates. Transformational leaders may expand a follower's portfolio of needs by indicating the leader's charisma and his or her intellectual ability to use charisma to connect emotionally with subordinates by engaging them in problem resolution (Bass, 1990b; Burns, 1978b).

Transformational leadership is a style that encourages employees to act in a way that extends beyond their personal interests to benefit organizational missions and goals (Kim, 2006). Leadership credibility and behavioral integrity are essential for transformational leaders because employee perception of the leader's vision is directly correlated with his or her words and actions (Grant, 2012). Research suggests the visionary behaviors and the value-driven goals of transformational leaders increase the importance that employees experience in their work (Grant, 2012). The result of effective transformational leadership has improved employee performance that manifests in increased organizational performance (Grant, 2012).

Transformational leaders operate best in organizations in which innovation is desired, in contrast to efficiency (Anonymous, 2002). Transformational leaders foster knowledge sharing, creative brainstorming, and constant development (Bryant, 2003).

Transformational leaders are represented by those with enthusiasm and optimism, training, education, and the ability to employ transformational leadership behaviors (Burns, 1978a). Transformational leaders consistently show that transformational leadership is more effective than transactional leadership; however, transactional leadership involves control that facilitates a leader-follower exchange that produces follower reliance on management. Transactional practices are considered crucial to maintaining the company, while transformational practices provide incentives for people to seek improvement in their practices.

A leader can and should employ both transformational and transactional approaches simultaneously because a leader must understand and encourage others by understanding the values, beliefs, and motivations that underlie them. Leaders must have respect for themselves by developing genuine communication, sharing information, and giving and receiving feedback. Leaders must preserve their integrity, honesty, trust, and caring for themselves, their business, and their community. In doing so, leaders learn about others' concerns and needs, helping them to develop critical thinking and problem-solving skills. Leaders need to share their power, allowing others to engage in decision making; as such, transformation leadership can be important to organizational performance (Bass & Riggio, 2006). Numerous studies have indicated that transformational leadership can increase organizational performance and enhance employee satisfaction with both their job and leader (Barine & Minja, 2012; Melkers & Willoughby, 2005; Trottier, Van Wart, & Wang, 2008; Van Wart, 2003).

The goal of transformational leadership is to inspire others to achieve more than they imagined possible. Transformational leadership facilitates leaders' abilities to sustain transformational leadership behaviors when the leaders act in this way, being a role model for their cohorts; they achieve idealized influence (Bass & Avolio, 1994). Transformational leaders inspire and encourage their cohorts by providing value to encourage their actions, which involves seeing desirable future results. The leader develops expectations and communicates them clearly, which motivates followers to achieve. Transformational leaders encourage the use of new ideas and innovative solution to solve problems. Ideas that are different from the leaders are not condemned. Transformational leaders give priority to individualized consideration of the special needs for achievement and the development of followers. Through this

process, followers are developed to meet established standards and achieve excellent results. This process fosters a high level of follower respect for leaders. As respect increases, there is an improvement of follower commitment to the leader's vision.

Researchers have stated that leadership is a skill that anyone can learn and successfully implement. This statement could be true, but the leader must adapt to situational challenges. Most outstanding leaders and managers are born with particular characteristics that contribute to their success. For instance, strong leaders gain support from followers. Effective leaders must influence followers who have shown excellent performance. According to Cronin (1984), leadership is one of the most discussed subjects, but it is also one of the most elusive and incomprehensible because it is highly situational. Leaders should be good listeners. The leader should be able to recognize both excellent and ineffective leadership.

A leader must be the spokesperson for the vision; he or she must become the vision. The leader must convey the vision in such a way that compels followers to action. The leader must ensure that followers understand the vision is of the highest priority. The leader must let actions speak, following through on commitments. The actions of the leader are measured by his or her commitment to the vision.

Motivation, inspiration, participation, and encouragement are examples of the indirect influence the leader may have in implementing the organizational vision. A leader must act as head coach. Leaders are responsible for careful implementation of the vision as communicated. According to Burns (1978b), leaders should change their behavior depending on the situation, aware that individual circumstances often require different styles of leadership.

Ethical leaders are more skillful in assessing their followers' motivations, power bases, and resources, and leaders also change their followers' motives through

gratifying their motives, responsibility, and integrity. According to Couto (1992), transforming leadership suggests helpful and desirable characteristics of a person, and the shapes, values, and goals of followers.

Transactional leadership is different from transformational leadership in many ways. Zagoršek, Dimovski, and Skerlavaj (2009, p. 148) stated that “transformational leadership lies in the leader's power to inspire trust, loyalty, and admiration in followers.” Transactional leadership is common in business. Transactional leaders focus on influencing followers through rewards or discipline, determining the needed compensation to produce a performance and provide rewards to followers based on performance results, in which followers receive rewards or reprimands based on successful completion of assigned tasks (Jamaludin et al., 2011; Sabir et al., 2011; Zagoršek et al., 2009). These leaders vigorously monitor deviations from principles, mistakes, and errors, or sometimes they may even passively wait for followers to do something wrong (Bass & Avolio, 1994). The transactional leader does not focus on the individual needs of followers, nor does such a leader concentrate on follower development. Transactional leaders are inclined to focus on the short-term, physical, and security requirements of subordinates. If an individual is not transformational but seeks to become transformational, there is a risk of conveying powerful messages to achieve results that may not be the most useful for the follower, organization, or the leader.

Transformational leaders are trustworthy, respected, and strong role models for ethical behavior; their influence on employees is an indicator of managers' effectiveness (Jimoh, Olayide, & Saheed, 2012; Kaslow, Falender, & Grus, 2012). This style of leadership teaches followers appropriate behavior through the exemplary

example of the leader. In contrast, according to Burns (1978a), when a leader begins successful performance, transactional leadership occurs.

The purpose of this transaction is to encourage followers to perform specific tasks successfully. The benefits associated can be "economic or political or psychological in nature" (Burns, 1978a, p. 101). Established from the beginning, each participant in the transaction understands the rules governing the interaction. Under this approach, the followers have no incentive for motivation outside of the requirements of the task. Once the transaction is over, all parties disperse, ending the relationship. This leadership model does not establish a relationship between the leader and follower, limiting future opportunities outside of the requirements of individual tasks.

The transformational leadership model builds a relationship between leader and followers; this relationship encourages higher performance. This model involves "motivation and integrity," which binds all the parties' concerned (Burns, 1978a, p. 101). Yukl (2006) stated that change leadership appeals to a follower's moral principles, while the transactional model appeals to the follower's personal preference. The transformational model encourages individuals to work for the benefit of others rather than themselves. Transformational leadership maintains high moral values to influence the behaviors of others and is likely to be more useful in a dynamic and unstable environment.

Transformational leadership is associated with high moral values in individuals employing this leadership styles. Such leadership is more likely when leaders are encouraged and empowered to be flexible and innovative (Abrell et al., 2011; Amy, 2008; Avolio, Walumbwa, & Weber, 2009; Caldwell et al., 2012; Yukl, 2006). The 21st-century global environment is constantly evolving, requiring



individuals to adapt. This environment is conducive to the transformational leadership model. It encourages creating relationships that will manifest behavior to achieve performance even in uncertain surroundings.

Leaders can perform as both transformational and transactional leaders. As Bass (as cited in Yukl, 2006) stated, transformational leadership positively influences employees' morality and empowerment, and "transactional leaderships are evident but not mutually exclusive processes" (p. 262). Successful leaders can implement strategies to combine both leadership styles, appealing to followers' motivational callings and self-interest by creating internal and external motivation (Dhammika, Ahmad, & Sam, 2013; Du, Swaen, Lindgreen, & Sankar, 2013; Pepper, 2010; Strand, 2011). By utilizing a combination of styles, transformational leaders inspire their followers and motivate them by providing a sense of meaning to their work and focusing on creating a more empowered work environment. Such a leader can increase intrinsic motivation by increasing employees' commitment to the shared vision and mutual goals (Bass, 1998; Yukl, 2006).

In Burns's (1978b) book on leadership, transformational and transactional leadership approaches were introduced. There has been no definite conclusion about which leadership is better because companies have different needs. Each type of leadership fits well within certain professional situations. Transformational leadership focuses on how followers can be motivated, guided, and directed to achieve goals (Sullivan & Decker, 2005). As Sullivan and Decker (2005) stressed, creating employees' responsibility for the vision is the purpose of transformational leadership.

Transformational leaders are similar to servant leaders. Greenleaf (1977) stated that influential leaders are servants and that, without a helping attitude, they

will not be passionate leaders. A transformational leader must also be able to apply what they can to change the situation (Greenleaf, 1977). The only way to be transformational is to recognize needed change and then change it. Many times, this change will require assistance, which produces the transformational leader.

According to Greenleaf (1977), the only viable institutions will be those that are predominantly servant-led. A true leader acknowledges and understands his or her followers. Success is a team effort. The leader cannot lead by himself or herself; he or she must have followers to complete the process. On the other hand, a strong leader must lead by example. If a leader has not been a supporter, then such he or she cannot know what it takes to follow. Great leader influences others to achieve leader-established goals.

A leader can be a positive role model, and if such a leader leads by example and has been in a follower position before, then he or she can be more effective leading and participating with followers. This arrangement sets up the most efficient environment. Researchers have affirmed the effectiveness of transformational leadership and transformational leadership is to articulate a vision and establish an environment that focuses on their contributions to others and employees (Caldwell et al., 2012; Carter & Greer, 2013; Grant, 2012; Pieterse, Van Knippenberg, Schippers, & Stam, 2010; Polychroniou, 2009). It is necessary to involve others to focus on the vision of the business; the leader must teach followers about the mission and vision.

The most widely used leadership style in organizations is the transformational approach, and the basis of transformational leadership is morality. Transformational leaders foster teamwork and encourage harmonious relationships with each other (Bass & Riggio, 2006; Bass & Steidlmeier, 1999). A leader can accomplish both transformational and transactional approaches simultaneously. He or she sees what is

needed to increase the needs of the company, teaching necessary behaviors.

Transformational leadership is best applied in an organization where the people of that company have a direct influence and ability to the success of the business.

Transformational leadership is only defined as inspiring followers' performance beyond the potential for individual accomplishment within an organization (Burns, 1978a). A leader is typically defined as a person who can encourage and build enthusiasm among followers. A transformational leader, however, can provide more than just inspiration. Such a leader asks many questions when dealing with followers. This leader ensures the employees are comfortable and that their needs are easily met while meeting company goals. A transformational leader, therefore, will always assess the feelings and needs of the employees. The transformational leader endeavors to support each follower in finding unique solutions to corporate problems.

### **History of Transformational Leadership**

Burns (1978b), an expert in leadership studies and applications, coined the idea of transformational leadership. Burns envisioned leadership where leaders and employees worked together, motivating each other. This collaboration required a greater role for the leader to provide strong encouragement to the employees.

According to Burns, the leader needs to be encouraging, sharing his or her vision for the organization with the employees and convincing them to internalize it through a personal commitment to bring the vision to fruition. The transformational leader also needs to lead by example. Through a strong personality, the transformational leader could encourage employees to change their expectations, aligning their goals to achieve the corporate vision.

Another researcher, Bass (1990b), took up Burns's (1978b) original concept of transformational leadership and developed it into a comprehensive theory. Bass defined the concept of transformational leadership on the influence of leaders on followers. According to Bass, transformational leaders are capable of garnering trust, earning respect through supporting their employees. Transformational leaders will have better relationships with their employees and will inspire an organization by promote lifelong learning for all members within the organization (Bass & Riggio, 2006; Haynes, 2007).

### **Transformational Leadership Theory**

According to Hannah et al. (2014), the focus on transformational leadership started in the 1970s and 1980s, when there were concerns about the most appropriate leadership style in the military, business, and political world. Burns provided the authoritative definition of transformational leadership as a leadership that inspires employees to focus on meeting organizational goals and as a way of satisfying needs of employees for achievement and self-actualization (Lang et al., 2014). A transformational leader inspires employees to ignore their immediate needs and focus on the long-term success of an organization as a way of personal motivation. Bass, in contrast, explained how transformation leadership involves the transformation of individuals and organizations, and transformational leadership culture in teams leads to building trust, commitment, and self-efficacy (Almer et al., 2011; Arnold, Barling, & Kelloway, 2001).

As Chan and Mak (2014) explained, transformational leadership involves the development of individuals working in an organization in which leaders focus on employees' personal development through the instilling of institutional values and beliefs, motivating employees to focus on always improving their abilities.

Transformational leadership involves leaders who inspire employees to look beyond their interests and engage in activities that will benefit the whole organization.

Brookes et al. (2014) argued transformational leadership involves a paradigm shift of human resource implementation. Baskerville and Hay (2010) asserted that transformational leaders have the opportunity to communicate the company vision to employees and help to transform the views of stakeholders to see organizational problems differently.

Baskerville and Hay (2010) noted that inspirational motivation and idealized influence represent the charisma of leaders who practice transformative leadership. The central role of the charisma in transformational leadership explains why some perceive transformational leadership as charismatic leadership; charismatic leaders can inspire exceptional performance in followers and spark innovation (Lang et al., 2014; Takala, 2005; Yukl, 2010). However, Hannah et al. (2014) argued that charisma is only one component of transformational leadership.

### **Components of Transformational Leadership Theory**

Bass (1990b) identified four main components of transformational leadership. These components illustrate the way in which transformational leaders operate in different organizational settings. The following sections provide an analysis of the four main components of transformational leadership theory.

#### **Idealized Influence**

Idealized influence is a behavioral component of transformational leadership. Leaders who are rated highly on idealized influence are perceived to consider their followers' needs first and share risks with followers consistent with stated principles, values, and ethics (Avolio & Bass, 2004). Idealized influence characterizes leaders as idols who other employees want to emulate. As Hannah et al. (2014) argued, most

leaders who are considered transformative have values and qualities that everyone within the organization seeks to emulate. Another aspect that describes the idealized component is the leadership behavior that is exceptional, always inspiring the followers. Such leaders provide a good example, demonstrating appropriate behavior within an organization that is consistent with goals and values of the organization.

Dyir, Eden, Avolio, and Shamir (2002) explained the first component as an idealized result. This component describes the extent to which a transformational leader is capable of acting and behaving like a role model to employees and displaying a high standard of moral and ethical principles guiding performance. A transformational leader is an outstanding leader, guided by a strong set of ideals that determine behavior, influencing the actions of followers. The pressure of the company or the industry at large does not influence this leader. Instead, such a leader stays healthy and focuses on achieving the ideals of the business and those that govern the ethical conduct. Thorn (2012) elaborated that the idealized effect has two critical factors. The first is the attributes of a leader, which are the traits and characteristics assigned to the leader. The second is the behavioral component, which describes the actions the leader performs. These two components are found together and characterize the performance of the leader; such a leader can incorporate personal and professional behavior with the characteristics assigned to the leader's role and importance. This effect produces an excellent role model for followers. Idealized influence is often described as charisma, although it involves more than charisma. Charisma is a result rather than an observable behavior (Yukl, 1999).

### **Inspirational Motivation**

The second capacity, according to Dyir et al. (2002), is inspirational motivation. Inspirational motivation is a behavioral component of transformational

leadership. Inspirational motivations are perceived to articulate a clear vision of a desirable future and demonstrate enthusiasm and optimism (Avolio & Bass, 2004; Spector, 2006). Leadership ability requires that a transformational leader should act as the cheerleader for the team, supporting followers by focusing on their interests and happiness. Such a leader exhibits an effective enthusiasm and charisma, instilling optimism in followers and providing them the necessary incentive to move toward achieving shared goals. A transformational leader focuses on ways to increase intrinsic motivation among the employees, so they find the strength and ability to work hard, not from external incentives in the business, such as identification and rewards, but the rewards of personal growth and satisfaction. Organization vision is set and frequently communicated, encouragement is given frequently, and power is shared by the leader among his or her followers to achieve the stated vision (Shibru & Darshan, 2011).

The concept of inspirational motivation explains that motivational leaders must possess the ability to motivate and inspire their followers to achieve a common goal. This skill involves the leaders' ability to highlight shared interests or meaning to all employees in the organization (Lang et al., 2014). Leaders who have mastered inspirational motivation can communicate the common challenges that perceived to affect their followers and explain to followers how they can unite with the aim of eliminating the common problem. The key characteristics of inspirational motivation concepts are the enthusiasm and optimism communicated by a leader to their followers. Transformational leaders have the ability to make their followers hope for the future and to be excited about carrying out different functions in the organization.

**Intellectual Stimulation.** Intellectual stimulation is a behavioral component of transformational leadership. Transformational leadership stimulates creativity and

innovation among employees, so the employees are encouraged to try new and innovative ways of solving problems, soliciting new ideas, and resisting the temptation to publicly criticize the mistakes of their followers. Under transformational leadership, employees are challenged to achieve the goals of the organization (Avolio & Bass, 2004; Wang, Law, Hackett, & Wang, 2005). Ibraheem, Mohammad, Al-Zeaud, and Batayneh (2011) described leaders rated highly on intellectual stimulation as those who reevaluate old beliefs and values, seek logical solutions to problems, and look for new approaches to stimulate followers' intellect and problem-solving capacity. Above all, employees are required to provide valid reasons for their solutions rather than just rely on established traditions.

Employees should feel confident in providing solutions based on what works in a situation, and the effect those changes may have on business requirements. A transformational leader would, for instance, say, *I am suggesting a new way of completing this task because the one currently used has become obsolete or I think this process will be cost-effective and easier to develop for the employees than the current one.* Leadership is an act of influencing. It is the process of influence that makes transformational leadership different from transactional leadership, which involves rewards, privileges, and punishments to motivate followers to comply with the rules of the organization and the leader's requests (Yukl, 1999). According to Hannah et al. (2014), one of the distinguishing characteristics of transformational leadership, in comparison with other forms of leadership, is concept of intellectual stimulation.

Chan and Mak (2014) argued that transformational leaders are able to inspire innovation among their followers. Such leaders have the ability to reframe common problems with the aim of finding solutions. Chan and Mak also questioned



organizational assumptions and inspire employees to think critically about opportunities or problems. Intellectual stimulation is realized when leaders are open to their followers and do not fear criticism about organizational implementation. The objectives of intellectual stimulation are realized when leaders aim to increase followers' efficiency and effectiveness in carrying out different activities.

**Individualized Consideration.** Individualized consideration is a behavioral component of transformational leadership. Leaders are perceived to actively support their followers' needs for achievement and growth by recognizing their individual differences, creating new opportunities and a work climate supportive of growth (Avolio & Bass, 2004). Individualized consideration focuses on leaders' ability to act as mentors to their followers. Transformational leaders must be able to coach and mentor their followers with the aim of improving their capabilities and potential. According to Chan and Mak (2014), the individualized consideration concept requires leaders to not only focus on the skills that their followers possess, but also look for different avenues that can be accessed to improve those skills. Transformative leaders provide their followers with learning opportunities to strengthen their abilities in carrying out organizational functions.

Transformational leaders can unite employees' vision to the organization and create a new vision for followers (Bass & Avolio, 1994; Riaz & Haider, 2010; Sadeghi & Pihie, 2012). They play the role of mentors and coaches to support the individual needs of every member of their group. They understand the challenges of every member of the organization, the needs of these members, and the steps needed to encourage each person to achieve his or her purpose and objectives. To achieve this dimension, transformational leaders promote two-way communication as a tool to enable them to understand employees' needs. The leader demonstrates concern for

each of his or her followers, treating each as an important contributor to the organization; transformational leaders enhance follower trust and commitment, and increase team efficacy (Arnold et al., 2001; Shibru & Darshan, 2011).

### **The Process of Transformational Leadership**

Schalock and Verdugo (2012) described the process of transformational leadership. A transformational leader follows a set process through to completion, which can create enthusiasm among followers. The quality of transformational leadership is based on the premise that it is natural for people to follow an individual who inspires them. Another assumption is that a person with a vision, coupled with a passion, can achieve extraordinary things if he or she persists in the commitment to the vision. The last assumption is that the person can be effective with enthusiasm and positive energy.

The first step toward transformational leadership is developing a strategy. The idea focuses on desired outcomes. The leader must ensure that this attitude creates excitement and enthusiasm among the followers. He or she encourages followers to adopt and follow the plan. In an organizational setting, management usually creates and develops the vision, and the leader embraces and interprets the vision through a personal understanding of the followers.

The second step, according to Schalock and Verdugo (2012), is to promote the plan. This step is a continuous one of reminding followers of the vision and the need for them to achieve it. The transformational leader makes a commitment to achieving this requirement, bearing in mind followers' different capabilities and dedication to the vision. Some followers will require more encouragement, and others will buy into the plan almost immediately. The transformational leader must be careful to establish trust, so the followers can trust and respect the leader's strength. This bond is

necessary to succeed in implementing the vision. It is important the leader involves the follower in achieving the plan. This involvement allows for alignment of followers' personal goals with the corporate vision.

The third step is to help the followers implement the vision. Barriers to implementation will not discourage the leader as long as the leader believes in the plan to accomplish the vision. The final stage involves the leader monitoring the course of action. The leader will follow up with results, regardless of the outcome. The leader must help his or her followers by encouraging them in stressful situations, listening to their problems, and promoting excitement about the journey. All of these efforts are to maintain employee confidence in accomplishing the established goals. In attending to the psychological state of the followers, leaders must balance outcomes with progress toward goals so followers can maintain enthusiasm for performance (Metcalf, 2012).

### **Transformational Leadership and Change**

Gul and Sahin (2011) defined transformational leadership as being synonymous with change. The goal of transformational leadership is to transform the business and followers to a degree that will create balance between the individual employees' needs and organizational needs of the firm. Transformational leadership is beneficial for the business in that it increases employee confidence. The leader identifies the employees' concerns and seeks ways to improve the situation for employees so they can enhance their strength and that of the company in general. Such leaders ensure the work environment is conducive to motivating employees to improve and develop their talents. Such a work environment will often produce a good job fit for employees, so they can achieve promotions and increase their individual capabilities for personal development. Transformational leaders help

employees persevere during tough times, congratulate them on their achievements, and pay attention to the important aspects of their lives as a motivational strategy.

Transformational leadership is a powerful tool for understanding employees in the organization; this tool can be used as the approach to employee happiness and work satisfaction (Scandura & Schriesheim, 1994). Companies in which transformational leadership is the norm incur lower costs of education because employees undergo continuous training and are encouraged to adopt a different method for accomplishing tasks. By demonstrating that company cares about employees, employees are encouraged to care about the enterprise; employees feel encouraged to work diligently for the company, demonstrate responsible behavior with the use of business supplies, and share ideas to increase their performance and service.

Aarons (2006) argued that transformational leadership involves embracing effective change; this style of leadership is designed to embrace changing trends in industry. This leadership style focuses on new and better ways of performing tasks without having to rely on the idea of an *eternal yesterday*. The transformational leader is an innovative leader who focuses his or her energies on seeking different capabilities among employees and urging them to adopt new and unique methods for performing tasks. The transformational leader is change-oriented, desiring to transform groups into efficiently functioning entities. Such a leader also wishes to help improve employees through improvement of capabilities for higher achievement. When the path toward achieving the vision fails, the transformational leader quickly creates a distinctive direction to help employees take a new path.

In the turbulent corporate world of the 21st century, Wooldridge, Schmid, and Floyd (2008) noted that a business owner should focus on ways to keep up with the

constant changes in communication, vision, and mission. Business owners also have to respond to problems of globalization and diversity, meaning that they have to deal with a diversified human resource characterized and influenced in their thinking and behavior with global trends. Businesses, therefore, need leaders who can apply different leadership styles that recognize these changes and anticipate other changes in the future course of the organization. This approach prepares employees to incorporate the needed changes in their assigned tasks.

The transformational leader is well prepared to manage change in organizations and his or her employees perform well with their tasks through self-actualization (Yu, 2013). Such a leader is continually looking for ways to improve employees' performance by introducing new strategies. Transformational leadership enhances a business through employee improvement; its leaders have charisma, inspire and motivate employees, and have the ability to influence their subordinates to outperform (Bass, 1995; Metcalf & Benn, 2013; Xanthopoulou & Papagiannidis, 2012). The transformational leader listens to followers and motivates them to use their unique skills to achieve fundamental goals and objectives. He or she ensures company viability by inspiring employees to manage change and strive to meet goals to keep up with industry trends. Transformational leadership is effective in supporting both female and male employees, which is not always the case with other leadership approaches. In this way, the transformational model supports a workplace with gender equality.

### **Critical Analysis of Transformational Leadership**

Chan and Mak (2014) argued the four transformational leadership concepts help explain the application of the leadership theory over the years. Through inspirational motivation theory, followers of transformative leaders are likely to be

highly satisfied and to always work for organizational interests. Transformative leadership has a direct relationship with employee performance and satisfaction in any organization. High levels of transformative leadership are also associated with forming efficient working groups in an organization and to improving the quality of services or goods offered by a firm. The leadership style is also associated with introducing new ways of carrying out the organizational goals and of employees being able to look beyond their personal interests. As such, transformational leadership is perhaps the best leadership style (Barling, 2014; Collins, 2001), but not all researchers laud the merits of transformational leadership.

Scholars have criticized transformational leadership theory for its emphasis on leaders in transforming institutions and ignoring contributions of events and the environment on organizational change. Inspirational motivation and idealized influence concepts are also difficult to distinguish because they both explain the charisma of a leader in motivating followers to complete tasks (Li, Minnis, Nagar, & Rajan, 2014). Despite the criticism, the existence of leaders such as Steve Jobs and Mark Cuban, who transformed their organizations, shows the practical application of the theory in the modern world.

Hannah et al. (2014) provided empirical evidence that transformational leaders create a stable workforce where employees' beliefs and perceptions are respected. They proved that organizations with highly transformative leaders were likely to have high levels of employee retention, in comparison with other organizations. Despite globalization and expanding technology, the need for transformative leaders has continued to increase because organizations still need leaders who can influence employees and create loyal followers with a common goal (Li et al., 2014).

Organizations with transformative leaders have also been able to adopt new

technology aimed at improving the efficiency and the effectiveness of their service or product delivery.

### **Transactional Leadership**

Transactional leadership is another leadership approach commonly used in the 21st-century corporate environment, and leaders who apply this style combine transactional and transformational leadership styles to achieve desired outcomes to meet organizational goals (Bass, 1985; Humphreys, 2001). H. Wang et al. (2005) identified the transactional style of leadership as more straightforward than transformational leadership because it motivates employees through rewards and punishments. The transactional style of leadership is related to the autocratic style, although it is different in that it is not as extreme and strict. Leaders in both styles are accurate and influence the relationship between them and their followers. They spend considerable time telling followers what they are supposed to do so that followers understand expectations in achieving the goals and objectives of the company. The transactional style of leadership is used in organizations with a performance focus on cohesion and efficacy (Bass & Riggio, 2006). It applies to jobs in which employees get rewards such as bonuses, time off, or free training based on demonstration of satisfactory performance.

Several assumptions are associated with the transactional theory. The first assumption is that employees work better when the chain of command is clearly defined. The second assumption is that extrinsic rewards and discipline motivate employees more than enhanced intra- and interpersonal interactions. Third, the primary goal and responsibility of followers are to understand the leader's commands without necessarily questioning the instructions. The last assumption is that without extrinsic rewards or discipline, subordinates will not perform well. This assumption

implies that employees need monitoring and incentives to motivate them to achieve goals (Dyir et al., 2002).

The transactional style of leadership is an exchange-based give-and-take relationship between leaders and followers; it places importance on rules and standard procedures, and motivates employees to achieve the short-term goals of the organization (Bass, 1990a; Burns, 1978b; Lussier & Achua, 2004; Sarros & Santora, 2001). The model does not encourage employees to be actively engaged in performing their duties; rather, it assumes detailed instructions are more effective in producing results. The employees are not encouraged to try new and innovative solutions to the problems. In this approach, the employees have or are given explicitly predefined solutions. The transactional theory of leadership, therefore, is identified as being efficient, with the rare exception when employees fail to achieve required performance.

Transactional leaders use their power to focus the organization on required tasks and outcomes to reach goals without the use of a moral compass (Sama & Shoaf, 2008). Transactional leaders can effectively meet goals without considering the ethical aspects of their actions or decisions in exchange for rewards of intangibles and tangibles that satisfy followers' material or psychological needs (Barling, 2014; Vishalli & Kumar, 2004; Wallis, Yammarino, & Feyerherm, 2011). Odom and Green (2003) agreed with this premise, suggesting that transactional leadership creates a climate where even good aims are more likely to result in unethical behavior.

The focus of transactional leaders is on communicating a vision, building trust and core values, continuous learning, and long-term corporate sustainability (Sama & Shoaf, 2008). When the transactional leader focuses on the task—orientation and completion rewards (Avolio & Yammarino, 2002)—projects have a higher chance of



finishing on time with fewer costs. Additionally, transactional leadership is more task- and requirement-oriented. Transactional leadership focuses on achieving tasks without building relationships. The only required interaction is providing external rewards or discipline to achieve the motivation required for task completion (Burns, 1978b).

Personal characteristics, the type of business, or objectives of the company may determine the leadership style exhibited by a leader. The leadership approach sets the tone for every employee. Leaders' success rates may become apparent when looking at the results of their efforts. A leader must have followers who achieve set goals, and transactional leadership focuses on immediate strategies to accomplish tasks at hand (Groves & LaRocca, 2011a).

Transactional leadership does not promote the values and morals that transformational leadership upholds. Transactional leadership provides personal rewards between leaders and followers, and transactional leaders establish clear structures and communicate what is expected of their subordinates (Bass, Avolio, Jung, & Berson, 2003; Kaslow et al., 2012; Yukl, 2002). Subordinates are those who are required to submit to rewards and punishments. The leadership model always sets the tone for followers (Dumdum, Lowe, & Avolio, 2002). There would be no leadership if the followers did not have some stake in the outcome. Likewise, a transactional leader will not be effective in a situation where some restrictions and procedures need to be followed.

Transactional leadership is quite different from transformational leadership (Antonakis & House, 2002). Transactional leadership is often viewed as an old method of leadership created in a time when companies did not have to deal with external conflict. As Nahavandi (2006) explained, transactional leadership has

managers dealing with methods of minor changes. This method worked in the past, when there was little to no competition, but it is clear the current economy has more competition than when this model was prevalent.

As Tichy and Devanna (1990) explained, transactional leadership is different from transformational leadership in several ways. Transactional leadership has leaders making many changes and looking forward to opportunities. These leaders will not only work on maintaining a relationship, but also, they will continue to fix fewer efficient departments. These leaders look forward to changes and envision a greater opportunity for the future. This leadership style causes individuals to be proactive and ready for change, not wait to change and act upon it afterward. More importantly, in contrast to transaction leadership, transformational leadership is a “behavioral system capable of being learned and managed” (Tichy & Devanna, 1990, p. 31).

A company cannot employ both transactional and transformational leadership simultaneously. According to Zagoršek et al. (2009, p. 7), “transactional leaders promote the acquisition and exchange of information, but only to the extent that it clarifies the role and task requirements or serve some other clear purpose.” Avolio and Yammarino (2002) stated that a transformational leader’s emotions play a vital role in communicating and inspiring followers, and these leaders may change their approach when interacting with different followers, depending on the need to raise levels of success or potential.

Transactional leadership reduces the beneficial effects of transformational leadership. Morhart, Herzog, and Tomczak (2011) stated, “However, when used at higher levels, brand-specific transactional leadership undermines the positive effects of brand-specific transformational leadership (‘crowding-out effect’)” (p. 40).

Transactional leadership involves the exchange relationship between leaders and followers; it serves to maintain the status quo within the business by appealing to the followers' selfishness and exchanging the effort for income and other benefits to satisfy leaders' and followers' self-interests (Bass, 1995; Yukl, 2006). Based on their definitions, transactional leadership appears to be easier to achieve because it relies more on the exchange of values, usually established by specialists. Transformational leadership may be more difficult to achieve because it relies more on the traits of the leader. Such difference between the two leadership styles may explain why transformational leadership is rare (Burns, 1978b).

Effective leaders routinely use transactional and transformational leadership styles (Yukl, 2006). Based on the exchange of values, the transactional model ensures a minimum and measurable set of power, and performance is crucial because it helps maintain the status quo in the business until the change takes effect. The transformational style entices followers to embrace the change, buy into the leader's vision, and often go beyond what is required, but the exchange is also useful for the company to stay ahead of the competition.

Burns (1978a) stated that transactional leadership is an action in which a person connects with others for an exchange of items of value, whether tangible or intangible. This leadership is concerned with the tactical exchange of goods, services, and mental well-being. Burns also mentioned that transformational leadership occurs when some people worked together for a shared cause. Transactional leadership is the act of exchanging items with a value proposition in mind, whereas transformational leadership embodies a group of people focused on greater levels of satisfaction, motivation, and actualization. Burns found that transformational leaders begin the process as transactional, but take an extra step to combine the two forms of

leadership. Leaders who aim to combine the two types of leadership approaches are strategic in their attempts to get more performance out of their subordinates. Couto (1992) found that transformational leaders help change subordinates into more productive members because of their higher levels of enthusiasm.

Burns (1978b) defined transactional leadership as a leader-subordinate relationship in which some transaction will occur. This style of leadership is demonstrated in situations where the leader or subordinate looks to the other to exchange some valuable good (Burns, 1978b). For example, a political candidate may speak at a local church for a pastor in return for his or her vote. Burns defined transformational leadership as an opportunity for leaders to encourage and build up subordinates through a similar goal or purpose.

The relationship could have started with differing purposes, but as morals and ethics become involved, goals tend to transform (Burns, 1978b). Burns (1978b) stated that in transformational leadership, leaders often become intertwined with their subordinates to achieve common purposes, which often leads to the subordinates striving to become leaders themselves. An example of transformational leadership is the relationship between a struggling student and his or her teacher. The relationship could begin as transactional, with the understanding of the teacher offering educational incentives for the student's willingness to work harder, but the relationship could end with the student motivated and willingly to work beyond the teacher's requests.

Transactional and transformation leadership have different outcomes. Transactional leadership seems to sever relationships with no remorse. However, transformational leadership includes a leader's ability to infuse emotions, morals, and

ethics into relationships with subordinates. It is possible for a leader to display both types of leadership.

Transactional leaderships are a type of exchange relationship in which leaders inspire followers through rewards (or punishment) in return for follower's effort (or lack thereof); and transactional leadership is crucial in developing trusting relationships with followers. Followers must understand and realize that they count on the leader and leader counts on them. Leaders must achieve a development process in which they can move from a style of transactional leadership to one of transformational leadership. Transactional leadership is built on the exchange; rewards from the leader are given to followers for desired business goals achieved (Zagoršek et al., 2009).

The primary purpose of transactional leadership behavior is to make sure that subordinate behavior is consistent with total organizational goals. A defining characteristic of transformational leadership is the leader's tremendous personal impact on followers' values, aspirations, and ways of thinking about business and interpreting events. Transactional leadership is the managerial kind of leadership. Supervisory roles and how well the company performs are the focus of this leadership. Weber was the first to speak about this leadership, but Bass took the theory to a new level (Cherry, 2012). Transactional leadership proposes the separation of supervisor and employee. The boss dictates the work and the employee does the work.

Transformational leadership is the kind that focuses on practical processes. The supervisor is involved in every aspect of the goal, helps the employees succeed, and remains a positive influence on others. Transactional leadership is represented by leaders who possess the talent to identify followers' needs, elucidate expectation, and

mete out rewards for achievement as the means to achieve goals in accordance with the established objectives (Avolio & Bass, 2004; Avolio & Yammarino, 2002; Bass, 1993).

The transactional approach uses rewards, while the transformational approach uses trust and unselfish motivation (Dumdum et al., 2002). Transactional leaders usually have more administrative and organizational abilities than transformational leaders. Transactional leaders often will transform into transformational leaders once the group of subordinates has grown to be consistently effective (Couto, 1992). Transactional leadership directs from afar, doing more paperwork, and managing from behind the scenes. Transformational leaders tend to interact more with followers and have a more hands-on approach.

Burns (1978a) stated that in transactional leadership, each party sees each other as an individual and interacts typically for one trade only. According to Burns, after a transactional exchange takes place, there is usually no reason to continue to work together. Couto (1992) found that a leader who uses transformational leadership often turns followers into moral leaders. Transformational leaders demonstrate specific behaviors: attributed charisma, inspirational motivation, intellectual stimulation, and individualized attention.

Zagoršek et al. (2009) stated that transactional leaders offer subordinates incentives or repercussions for performance of completed tasks. Burns (1978b) provided a similar definition of transactional leaders: the transactional leader takes the initiative to interact with others for the exchange of something of worth. Dumdum et al. (2002) stated that transactional leaders address the concerns of self-interest; in contrast, transformational leaders engender trust and develop leadership in others.

This contrast is similar, despite the difference between entry-level and career-oriented jobs.

Entry-level jobs have certain requirements that need fulfilling with the little need for critical thinking, as well as little room for failure (Clawson, 2006). A more career-oriented job requires more thought, allows latitude, and has more room for future failure. In most organizations, individuals simultaneously use transformational and transactional leadership styles. The main reason is that some people respond better to one style over the other. Tangible rewards motivate some people, while others seek elaborate rewards. Transactional leaders oversee entry-level positions because there is a need for specific performance requirements. Depending on the leader, people in entry-level roles may have to perform under both leadership styles for the same reasons. People respond differently to different leadership styles. Motivating factors and some jobs are more transactional-based.

### **The Theory of Transactional Leadership**

While transformational leadership theory views leaders as aligned with followers, transactional leadership theory posits a distinct difference between leaders and followers (Zacher & Rosing, 2015). Followers carry out tasks given by leaders for the particular purpose of obtaining either monetary or nonmonetary rewards. Hannah et al. (2014) asserted the exchange of rewards and targets between the leaders and their followers characterizes transactional leadership. The leaders set goals for their followers, while the followers aim to reach the target to receive their rewards.

Wolfram and Gratton (2014) asserted that transactional leadership is dependent on contingent reinforcement that may be positive or negative. The positive reinforcement involves rewarding positive behavior, while the negative reinforcement involves instilling fear of punishment for the failure of implementing the leader's

goals. The exchange that exists between followers and their transactional leaders helps the leaders to reach the performance objectives, complete organization tasks, improve organizational efficiency in product and service delivery, and avoid unnecessary risks.

Followers help transactional leaders realize the goals, mission, and vision of the organization, in return for which the leaders provide reward based on exchange between the leaders and subordinates (Li et al., 2014; Nahavandi, 2000). The transactional leadership style helps employees or followers of the leaders fulfill clear organization goals, achieve their personal interests, and earn rewards for exemplary performance. Unlike the neglect of individual goals in transformational leadership, transactional leadership creates an environment to realize both the organization and individual goals.

Among the key features that define transactional leadership is that there are multiple transactions between the leaders and their followers, and employees are motivated through rewards and recognition (Li et al., 2014; Odetunde, 2013). The aim of the multiple transactions satisfies the interests of both the leaders and the followers. Empirical evidence indicates that transactional leadership can motivate employees to work toward the goals of the organization or leader. Another characteristic that defines transactional leadership theory is the issue of performance contracting.

Transactional leaders are most effective during contingency rewards when leaders provide reward and recognition to the employees (Li et al., 2014; Nicholson, 2007; Verlage et al., 2012). The followers and leaders agree on goals and rewards, recorded in agreement with the aim of managing the implemented performance and reward system. Cost-benefit analysis is another characteristic that defines the



transactional leadership theory; cost-benefit analysis is a process of comparing the value of work done and the rewards offered. Transactional leaders tend to be inflexible in implementing organizational goals. According to Wolfram and Gratton (2014), transactional leaders are averse to change; they have a clear vision for followers. They also have the discretion of establishing goals, benefits, and rewards for their followers.

One criticism of transactional leadership theory is its focus on the short-term exchange relationship between the leaders and their followers. According to Hannah et al. (2014), transactional leadership does not require a deep engagement between the leaders and the followers. Another criticism of the application of leadership theory is its ability to cause resentment between leaders and their followers, especially when one party feels that the other party is not fulfilling their end of the bargain (Liu & Wang, 2014). There is also evidence that negative reinforcement may lead to organizational conflicts and undermine the implementation of organizational goals. Additionally, situational and contextual factors are often neglected in the application of transactional leadership theory, which is another criticism of this approach.

Wolfram and Gratton (2014) stipulated that some aspects of transactional leadership exist in an organization, and that there is an inverse relationship between transactional leadership and innovation in an organization. The empirical evidence shows that transactional leaders encourage teams to carry out specific functions to get a reward rather than to attract team members to think of creative ways to implement organizational strategies. The emotional well-being of followers of transactional leaders is likely to influence the satisfaction followers will deliver to customers. If the organization can take care of the employees' emotional needs and tie the rewards

to innovation and introduction of creative ideas, the transactional leader can foster innovation and creativity in the organization.

Transactional leaders have the ability to enforce the quality of the services or products delivered by their followers. As Hannah et al. (2014) argued, empirical evidence shows that transactional leaders have discretion in determining the quality of services or products that they can use for rewards in an organization. Such leaders can refuse rewards to followers if they believe the quality of the services delivered falls below expectations. Transactional leaders prefer employees who are self-motivated and understand expectations. Bill Gates, the founder of the Microsoft Company, is among the leaders considered to exhibit transactional leadership. During the Microsoft Company early stages, Bill Gates visited the production teams in his company to ask difficult questions. He ensured that every member of the organization was always aware of the leadership requirements. Howard Schultz, the leader of Starbucks, is another example of a transactional leader.

Schalock and Verdugo (2012) understood the principles of transactional leadership to be one of the most controversial theories in the study of business management because of the structure of hierarchies and promotion of undemocratic practices in the organization and management of organizations. Despite these unpleasant qualities of leadership, the transactional style of leadership is often adopted and applied to manage business organizations. The transactional style of leadership describes an autocratic leadership. The transactional leader is a totalitarian leader.

A transactional leader will notify an employee to perform a task for a particular benefit. Failure to complete the work means a loss of interest, and possibly punishment. In this case, the employee has no choice but to serve as required for fear

of losing the benefit. The theory of transactional leadership borrows from Pavlovian conditioning. The conventional example includes a dog, food, and a bell. With time, the dog will learn to recognize the sound of the bell with food; every time the dog hears the bell, the dog knows the food is ready and starts to salivate. This same dynamic occurs with the transactional style of leadership. Every time an individual gets detailed instructions, the person automatically knows what to expect in return; this connection between instructions and known expectations creates a conditioned response for the employee.

Maslow developed the theory of needs, stating that every human being has many needs strived for at different times in life (Bass, 1990a). The theory of transactional leadership is linked to the idea of these requirements, so the transactional leader takes the time to learn and understand the needs of each employee and uses strategies that take advantage of these requirements to control and manipulate each employee's actions. According to Maslow, for instance, the state of self-actualization is the highest value of human nature; understanding this concept makes the work of the transactional leader easy. If such a leader knows the employees have achieved most of the lower-ranking values in the hierarchy of needs, the leader will then know that providing these employees with certificates of merit and medals with their names printed on them would be a useful bonus to compel them to develop the motivation to work hard. For a population that is still struggling to meet the lower needs in the hierarchy, on the other hand, the transactional leader will know that keeping the threat of unemployment a reality will serve as a determinant to keep them working hard, so they can meet requirements and maintain their jobs. Skinner reinforced transactional theory, noting that it was possible for communities to begin effectively using the excitement of rewards and the possibility of punishment as

strategies to inspire the people to achieve the intended function and reward employees in accordance with task achievement (Bass, 1990a; Tyssen, Wald, & Spieth, 2014).

Thorn (2012) described the transactional style of leadership as the most primitive form of leadership, which can be equated to slavery because the transactional leader takes advantage of the core conditioning and expertise of the employee. Hobbes's idea of Leviathan aligns with the theory of transactional leadership. Hobbes conceptualized man's existence as being in a state of nature, characterized by a war involving all persons against all the other people. In this state, people work to establish their well-being in competition with other people. People then realize that they have the option of coming together, giving up some of their independence in return for safety and security. The transactional style of leadership is also based on the same reasoning to achieve the vision of the organization (Birasnav, 2014). When an individual is hired, he or she is willing to give up some independence in exchange for job benefits.

### **How Transactional Leaders Work**

Gul and Sahin (2011) identified the primary goal for transactional leaders as they focus on the management and supervisory roles for their followers at individual and group levels. Transactional leaders dole out rewards and punishments as a means of promoting success, and they prefer to follow the rigid organizational norms and values as they oversee the activities of employees' compliance with these standards. The transactional leader carefully assesses employee performance to identify any deviation from the service standards and organizational norms. This approach is useful and helpful in situations that require standardized operations and in times of crisis, when decisions must be made quickly and there is no time for negotiations. Transactional leaders' value processes more than new ideas. Such leaders are not

willing to experiment with any untested idea, especially if they do not know the likely success or failure. They also do not like experimenting with procedures that may add support to the follower, such as in engaging creativity to complete a task.

Transactional leaders prefer outward forms of motivations to the natural forms of motivation (Gul & Sahin, 2011). They do not attempt to determine motivation from within employees, but from elements within the control of the business, such as money and awareness. This style of leadership takes away power from followers and bestows that power on the leader or group, who then allocate some power to the follower in a conditioned way. The transactional leader uses various forms of negotiation, as long those forms fall within the standards and goals of the company, always with the desire to maintain the status quo. Despite this use, some coaches maintain their transformational leadership skills to increase internal motivation among players as a motivation strategy.

### **Advantages of Transactional Leadership**

T. Metcalf (2012) remarked that transactional ideology is more of a management theory than a leadership theory. This style of leadership is quite different from that of transformational leadership and is widely regarded as an autocratic style of leadership in a flexible model. Despite these negative connotations, the transactional style of leadership has many advantages that make it suited for use in organizational platforms. Specifically, this model of leadership is effectively applied in situations that require short-term productivity. The transformational model would fail in a short-term spectrum of importance because it takes more time to develop and steer employees into sharing in the leader's vision. Transformational leadership would be useless in emergencies that require short-term input from the employees.

The first benefit of the transactional style of leadership, according to T. Metcalf (2012), is that it creates a structure and routine for employees to follow. Managers create a set of instructions on who is responsible for functions and what is in store for employees if they implement effective results. The manager also elaborates to employees on exactly what they want to do, how they need to do it, and the extent to which they need to do it to achieve rewards in exchange for their performance. An organization may, for example, aim to reward its employees for attendance. In such a situation, the company would make it easy for all employees to meet the performance criteria, setting clear the times that employees should report to and leave work. Only in exceptional cases would the employees be allowed to leave work during standard work hours. In this case, there would be an evaluation of the employee's attendance and the precise benefits for meeting perfect attendance. The structure would then include minimum performance criteria, which would help the employees in their daily functioning. An employee would know, for instance, that poor attendance would lead to a salary reduction for the undesired behavior.

Wooldridge et al. (2008) identified another benefit of transactional leadership. Under this structure, executing specific processes creates unity among the employees and managers. The normal structure of a transactional model is a top-down approach, meaning the information system starts from the top of management, trickling down to the employees. Managers are responsible for giving orders to employees and for achieving reasonable implementation. They ensure that they provide clear and detailed performance instructions to the employees. Because lawful authorities provide the instructions, employees find it easy to follow them. This situation is unlike the transformational leadership model in which the leader has to convince the workers to embrace the strategy; although there might be disagreements on how to

achieve the desired goals, employees develop a high level of consensus on the mission and vision of the company, as communicated by management.

The third benefit is that of increased employee efficiency because of the clear communication of goals and expectations (Wooldridge et al., 2008). The transactional leader is primarily concerned with the successful completion of the allocated tasks and achieving the mandate of the company, without having to bear in mind the needs of the employees in the process. The transactional style of leadership is most effective in enhancing the effectiveness of the employees and streamlining the process of achieving the goal of the organization. Another achievement of this model is that of standardization: all employees are required to meet minimum expectations, given that failure to achieve this minimum could translate into punishment for the employee. Because the managers set achievement standards for every situation, employees work hard to ensure that they conform to the requirements and reduce the number of mistakes made, increasing their productivity. Although not always welcomed, this style of leadership is necessary when the tasks involve many repetitions, require a low skill level, and do not require employees to be flexible in their performance of the functions. In completion of different tasks that might require employees to engage their creativity, the transactional model may not be the best choice.

Thorn (2012) identified the primary benefit of this style of leadership: it encourages management-by-exception. Because the method creates a stable structure of performance and standardizes the potential for employees, management can quickly identify employees with excellent and poor performance. The passive form of this style of leadership is that management only intervenes when the performance of the employee falls below the set minimum. The active form of the management

style is that managers always maintain an adequate evaluation of employees, influence success, and guide and encourage them toward even better performance (Vella, Caruana, & Pitt, 2012). This style is easy for management to utilize because employees' work will continue to support the standards; managers need only monitor struggling employees.

### **Weaknesses of the Transactional Model of Leadership**

Aarons (2006) mentioned an assumption about the transactional style of leadership: people understand monetary rewards more than they understand personal satisfaction. The model assumes that employees leave their personalities and personal goals and aspirations to acquire those of the company in total. People do not always act according to possible consequences from their employer.

One problem with transactional leadership is that it assumes a simplistic perspective and understanding of motivation (Aarons, 2006). This view fails to bear in mind individual differences between employees, and the role these differences might play in influencing the behavior and performance of employees. The model assumes that employees will just go about any job or task, as long as they hold the assurance of rewards or escape of punishment. The transactional leader does not feel obligated to give recognition or thanks to employees who meet expectations. To the transactional leader, employees are paid to perform. Transactional leaders criticize poor performance while praising superior performance. The effect of these actions is that employees lose the ethic of working hard. The only reason they work hard is to earn their benefit and avoid punishment for failing to reach the expectations put on them. They feel no obligation to behave well, as long as behavior does not interfere with their performance or they are not punished for such conduct. Unless a benefit or



punishment is regulated such conduct, employees feel no obligation to uphold the name and values of the company outside of the workplace.

The second problem with the transactional style of leadership, according to Aarons (2006), is that it promotes manager and employer rigidity. The leader in this model is rigid in his or her instructions and expectations of followers. Such a leader knows the only thing in store for the followers is the benefit accrued from following instructions. The leader uses formal approval for standard tasks, not considering employees are capable of engaging in any serious problem other than the customary practices of thinking imposed on them by the hierarchy of the company. The leader also believes followers must understand their role in the company, and that they must not question any instruction given to them or ideas of the transactional leader.

This approach has the side effect of limiting the creativity of both the leader and his or her followers; they remain confined to the rules of the procedures manual, not engaging in their individual creativity and ideas. The two parties fail to adapt effectively or to set limits if things fail to go as planned. It is a failure of both leader and follower. The element of avoiding failure is especially essential in the 21st-century corporate world, which is effective and growth-oriented.

Bass (1990a) noted that a major weakness of the transactional style of leadership is its tendency to assign responsibility to the followers and not a leader. The case is different for the transactional leader. Once the leader gives instructions to his or her follower, performance responsibility shifts from the leader to the follower. Most of the performance requirement at this point lies with the follower to adjust in all ways possible to meet the task requirements. If the follower fails to satisfy these requirements, the employee becomes fully responsible and liable for the problem.

The employee faces punishment if such a problem occurs. Fines, demotion, or even termination awaits followers in such situations.

Schalock and Verdugo (2012) identified another weakness of the transactional model of leadership: it requires the presence of the leader for work to be completed. It creates followers who have to wait for the leader to give them directions on how they are supposed to proceed. The constant threat of the failure of employees to perform their duties as required also might make employees lie or steal to avoid punishments and get away with poor performance. Without the leader present, and with no other motivation to engage in superior performance, employees have an equal incentive to participate in unethical practices; they may not even share the same goal of the leader or company. Followers of transactional leaders might be detached from the vision of the company, merely working for a monthly paycheck.

### **The Future of the Transactional Model of Leadership**

Gul and Sahin (2011) assessed the likely future of the transactional style of leadership. The transactional style of leadership has been present in various forms since the origin of human beings. Obeying the leader or facing the consequences is not a new idea, and there is no reason to think this style of leadership will disappear, especially given the advantages of the approach (Gul & Sahin, 2011). Technology has become the tool that reinforces the quality of transactional leadership, by enabling managers and other people in leadership positions to use surveillance to monitor others in the workplace. Business leaders and managers around the world continue working hard to ensure that they hold on to the activities and operations of their employees and that they condition them to behave according to standard guidelines. These businesses continue to use the threat of unemployment as a feature to determine

the activities of the employees, knowing that, in difficult economic times, the prospect of unemployment will scare these employees into compliance.

### **Servant Leadership**

Servant leaders focus on helping others achieve goals and develop skill sets and exemplify responsibility (Greenleaf, 1977; Kiechel, 2010; Newstrom, 2011; Pierce & Newstrom, 2006; Sendjaya & Sarros, 2002; Spears, 1996). Under this model, leaders put the interests of others above their own (Newstrom, 2011; Parris & Peachey, 2013). Employees benefit from this leadership because they can contribute to the organization, develop their skill sets, and prosper. Servant leaders are authentic, attentive listeners, adequately gauge others, provide respect, ask for help, proclaim mistakes, engage others, and build trust (Newstrom, 2011; Shekari & Nikooparvar, 2012). The purpose of these leaders is to develop and prepare future leaders for success (Parris & Peachey, 2013). Servant leadership is not the most appropriate model to apply to performance-based environments, but it does provide a model for the development of people; the role and primary objective of servant leaders is to serve followers over the organization priority (Barbuto & Wheeler, 2006; Shekari & Nikooparvar, 2012).

### **Charismatic Leadership**

Charismatic leaders portray visions or purposes that focus on illustrating the ultimate outlook, which occurs when leaders are perceived as having exceptional qualities. These qualities lead to value and emphasize the need for improvement and innovation to demonstrate courage and convictions of a vision (Clegg, Kornberger, & Pitsis, 2008; Harper, 2012; McLaurin & Al Amri, 2008; Weber, 1947). These leaders can motivate others, build high levels of trust, and empower; this style of leadership has been recognized since Weber's (1947) various theories of charismatic leadership

were established (Clegg et al., 2008; Conger & Kanungo, 1987; Harper, 2012; House, 1977; Sandberg & Moreman, 2011; Shamir et al., 1993). Employees strive for higher standards of achievement. Charismatic business leaders are drawn to organizations that are new or undergoing drastic change and represent high levels of confidence (Sandberg & Moreman, 2011). Under this style of leadership, followers are fully engaged with the work, illustrate loyalty, and demonstrate inclusive behavior (Sandberg & Moreman, 2011).

In charismatic leadership, leaders expect to persuade followers that their beliefs are trustworthy and factual (Clawson, 2006). The charismatic leadership model encourages leaders to have self-assurance in their goals (Clawson, 2006). For a leader to influence his or her followers, much thought and communication is needed. The leader needs to be understood in a way that matches the anticipated views of both the follower and leader, which makes communication “a very complex process” (Luftman, 2004, p. 342) in the charismatic leadership model.

As with transformational leadership, charismatic leadership promotes motivation and emotional involvement through visionary ideas and inspirational convictions (Avolio & Yammarino, 2002). Transformational leaders use charismatic leadership theories to communicate new and innovative visions for the company, and transformational leadership plays a role in managing teams to perform beyond expectations (Bass, 1985; Kearney & Gebert, 2009). Performing beyond expectations might include using unconventional methods to realize the vision, taking personal risks, projecting confidence, and persuading followers rather than using power (Clawson, 2006).

## **Innovative Leadership**

For a long time, as T. Metcalf (2012) noted, the strategy was all that mattered to the success of any business. As long as a business leader had the right approach, the leader's business was likely to overcome all obstacles in the market; effective strategies in the processes of planning, forecasting, and taking educated risks were sources of energy for many businesses around the world. The future of any business can easily match any one of the frameworks established, and as long as management had the strategies and sources, the company was bound to move forward into success. However, this approach has changed; innovation is now a business strategy. Forecasting is no longer as easy as it was a century ago, when things were more trustworthy and change was slow. In business today, innovation leads to success.

Innovation is one of the most common words in 21st-century business language (Metcalf, 2012). Innovation is the framework of achievement in companies and business organizations around the world. Innovative leadership is a style that relies on creativity and innovation to propel the company forward. Innovative leadership focuses on achieving a better and improved future for the business by increasing efficiency and reducing obstacles that hinder performance. An innovative leader does not subscribe to the status quo.

Thorn (2012) observed that innovation produces the same thing as development, indicating there are common factors between the two concepts. The same applies to innovative leaders, who are change leaders. Innovative leaders are aware of the need to embrace change in the companies for which they work. Innovative leaders have high ambitions for their organizations. The work of an innovative leader involves demonstrating the ability to engage in voluntary efforts to help create new and sustainable products applied in different contexts to make some

improvement to a company or business. Innovation has some practical value in the real world, and innovative leaders are concerned with developing new tools that improve on previous tools; different methods improve on previous processes, and new products that are better than the previous methods (Thorn, 2012). Besides development as a component of innovation, it is vital to the tools, processes, and products to enable people to provide a platform for further improvements, best performance, and increased productivity.

### **Innovative Approach to Leadership**

The innovative approach to leadership describes the behavior of innovational leaders. According to Hannah et al. (2014), innovational leaders can imagine innovative solutions to problems without prior experience. The concept explains how leaders must have the ability to solve challenges and take advantage of opportunities, even when the strategies are not clear. Innovational leaders must be able to act, even when they lack information, encouraging employees to come up with new ideas. In conducting research on innovative leaders, Comprix and Huang (2015) found that innovational leaders have the ability to make quick decisions and be flexible in their decision-making process.

### **Roles of an Innovative Leader**

T. Metcalf (2012) indicated that too many people resist change. The role of an innovative leader is to make followers embrace change rather than resist it. In doing this, the innovative leader must convince his or her followers of the need to embrace the change by incorporating it into their daily operations. Followers can resist change by opposing new policies or proposals. All forms of resistance are anti-innovative, and it is the responsibility of the innovative leader to meet such resistance.

Innovative leadership works by showing benefits to followers and helping them adapt to new processes and procedures. Innovative leaders are similar to transformational leaders; they act as the idealized selves that govern the actions and behaviors of their followers, showing followers how to innovate. Such leaders may arrange demonstrations to show employees the benefits of adopting certain changes. The leader makes all efforts to lead followers to adopt new ways of coping with the transition.

The role of an innovative leader is to help set reasonable expectations for employees, as well as translate achievement within the situational context of the company (Gul & Sahin, 2011). The innovative leader understands the inherent difficulties the followers might have to face, and rather than discouraging them from adopting the changes, the leader facilitates followers to move with the changes using the *in spite of* inspiration.

Thorn (2012) noted the innovative leader is different from other leaders in the independence of action. Such a leader knows that options are endless and not determined by others in an organization, such as management. A true innovative leader believes in development, and such a leader works hard to ensure that followers embrace this belief. It is a sharing of the desire for change and independence of thought. The innovative leader grants followers the freedom to choose, even if they disagree. Rejecting the views of the followers would constitute a struggle and would not be desirable. It is part of an innovative leader to understand and appreciate diversity among followers, even when the views and ideas of the leaders differ from those that followers hold.

Smart, innovative leaders, encourage followers to share their opinions and views on issues. It is common, for instance, for leaders in the 21st-century corporate

world to engage their followers in exercises of brainstorming, often ending with a diversity of options. Such a leader encourages followers to take a different perspective. The leader then considers each proposal and even encourages followers to follow up on their ideas. The innovative leader rarely dismisses any idea or suggestion, often embracing views as given and seeking ways to find the best solution to pressing problems (Thorn, 2012).

Innovative leaders are flexible; they are not constrained by their followers or the organization (Aarons, 2006). However, this flexibility does not mean the innovative leader is unwilling to understand the plight of the followers or the issues facing the organization. What such a leader does by watching is to organize the actions needed to solve the problem or issue. Most importantly, the innovative leader allows his or her followers an opportunity to engage in their thoughts and explore all the options available to find a solution to the problem.

Innovative leaders do not limit themselves to conventional approaches. The innovative leader may care less about the best results and more about changes in follower thinking. Such a leader cares about identifying needs and determining requirements to address the needs. The innovative leader allows the follower to use creativity to obtain an innovative solution to the problem.

Innovative leaders have the responsibility of assembling their followers and leading them to achieve optimal performance and results (Gul & Sahin, 2011). Innovative leaders have the unique position of embracing the differences in follower approaches and conceptions. The opinion does not end in identifying the differences, but in connecting the dots within these differences to promote cooperation among the leaders. Employee collaboration creates an environment that will ensure continuous improvement, initiative, and innovation. The first task for an innovative leader to



cultivate innovation among followers is encouraging followers to embrace change. To achieve this objective, the innovative leader must explain innovation, including its value in producing solutions to problems. The leader must clarify employee roles and the importance of cultivating and nurturing followers to conceive of innovative solutions.

Innovation does not depend on a manager or company executive, but on the efforts of a single employee who takes the time to understand the particular dynamics of the business. Such an employee takes the time to consider the needs of the customers, their preferences and tastes, competitor strategies, the process of transformation of the industry, and the different brands in the business. That employee takes the time to explore the emerging role and function of technology and many other minor details that have an impact on the operations of the market and the company. An innovative leader has the necessary knowledge and perspective to spot opportunities that everyone else overlooks, and such a leader can evaluate outcomes, develop these results, and share the opportunities that arise from such engagements (Schalock & Verdugo, 2012).

Innovative leaders receive their skills from a multitude of sources, both from internal and external sources. Such leaders create conditions that allow followers to interact with the world and different points of view, as well as experience diverse types of innovation. To develop innovation takes the collaboration of many followers. An innovative leader knows innovation comes from certain followers inspired to innovate for expansion, sustainability, and prosperity (Gul & Sahin, 2011). An innovative leader begins follower transformation by exploring the desires of followers first. The innovative leader takes the time to understand the needs of

followers, showing flexibility in assessing each follower's potential contribution.

Workplace innovation and development represent two sides of the same coin.

The innovative leader can ask followers to adopt an entrepreneurial mindset that encourages them to share their concepts and ideas (Gul & Sahin, 2011). This way, the followers become foundational to the growth and development of the company and ensure the sustainability of the organization through continued innovation strategies. An innovative leader allows his or her followers to express their creativity in undertaking the various tasks and work processes, propelling change to a higher level.

### **How Leaders Inspire Innovation**

**Trust.** Gul and Sahin (2011) noted that an innovative leader devotes himself or herself enough to believe others. The process of transformation requires the leader to break down the old ways of performing various functions and tasks to develop new modalities and methods. It requires that each member of the company is open enough to allow sharing ideas with others. The innovative leader must give followers enough support to open up and share creative ideas to achieve goals. It is a process of trusting others. The leader learns to be more patient with followers, a better listener to their suggestions, able to take risks and leaps of faith through the proposals given by the followers, and eventually, able to identify the newly achieved innovations.

**Collaboration.** Innovation leadership is embedded in the ability of the players, both the followers and leaders, to collaborate with one another to invent the new ways of doing things. Innovation is multifaceted and requires input from multiple sources. Sources are achieved through collaboration and cooperation (Gul & Sahin, 2011). Collaboration for innovation involves not only working closely together, but also developing new ways for different people to work together.

Innovative leaders are prepared to listen and assign priority to every suggestion given because they cannot determine where the answer lies unless they examine in detail all the possible alternatives.

**Communication.** Innovative leadership is based on strong interpersonal communication between the leader and his or her followers, as well as among the followers, to achieve the goals of the team. Vigorous and effective communication among these groups results in greater structure among the teams, so they can share their ideas and thoughts for improving innovative solutions. Communication for innovation is designed for learning, so communication becomes a way of educating others on the issue and getting them to share the views of the leader (Gul & Sahin, 2011). Communication should be crafted in a way that opens the minds of the other members and inspires them into thinking creatively, exploring more options and possibilities for innovation. The information should set the stage for challenging one another to create and develop better strategies and innovative ideas as solutions to the problem.

**Change.** An innovative leader, according to T. Metcalf (2012), is a change author with the goal to inspire change among followers. The leader encourages followers to see and understand everything within the lens of continuous improvement through constant change. The innovative leader, therefore, is a skilled leader who takes the role of a change agent and supports disruptive change as an important component of growth and heightened performance. Innovative leaders believe that they must become change agents or face extinction because the changes may be overwhelming. Being a change agent means embracing risk, challenging norms, and seeing opportunities in everything experienced.

**Course Correction.** There is no one true way or method for an innovation leader. Instead, such a leader pursues a goal with his or her mind open, knowing that he or she might have to change course many times before achieving the desired goal. The innovative leader engages in constant course correction in the process of achieving. The process keeps the leader and followers alert, knowing that they may have to be involved in the communication of wrongdoing and retrace steps to correct the mistake. This approach lacks in the transactional style of leadership, where followers have a clearly delineated procedure, and all that they have to do is follow the path to its destination. While this method of transactional leadership creates stability in the process of accomplishing tasks, it also blocks out creativity and innovative thinking. Innovative leaders seek to improve this situation by providing followers the opportunity to choose a different path. To ensure that innovation pays off for the innovation leadership style, the leader must always question whether the current path might be most effective to accomplish the goals (Metcalf, 2012).

Innovation is different from creativity; business people know that they do not have to be as creative as they have to be innovative. Innovation is the re-creation of something new out of what has been in existence through a continual process of adjusting and adapting. Innovation, however, can produce powerful and exciting breakthroughs in the way humans see the world. Resisting or coping with situations will not lead to innovation; a change will likely be a reaction to the circumstances. Only active participation can produce predictable innovation. Such an approach can provide solutions to existing problems.

**Innovation.** Being creative and adopting creative-thinking skills helps to stimulate innovation, which helps an organization achieve a competitive advantage. Further, being creative helps people to enrich their personal capacity and explore

undiscovered talent. Besides, creativity is something that is innately human, although humans tend to be less creative as they get older because they create boundaries and adopt classic models for business. Even though people tend to be afraid of being creative, the skill is still needed in every human life.

It is especially useful for total quality management because innovation and creativity are tied together. Omitting either one limits any further improvements. Also, without practicing creative skills or being encouraged to be creative, change will never happen. Thus, using creative thinking techniques and a creative problem-solving proposal help to stimulate innovation and creativity. The strategy might involve redesigning a creation or making management processes easier throughout the total quality management system. Companies want to maintain their position of continuous improvement support by being innovative and creative.

Companies want to develop problem-solving skills and empower their employees to be creative and bring up new ideas to the company to feed the continuous improvement process. Being creative increases a company by reforming its organizational and business structures, process redesigns, and building a stronger information technology system because being creative produces a never-ending flow of ideas, which is the foundation of total quality management needs. The strategy is an essential strength and success reason in total quality management.

As Drucker (2002) pointed out, innovation is a passionate effort taken to achieve profitable ideas. If individuals are discouraged from looking into innovative ideas, then there is little chance for innovation to occur in an organization. Drucker stated that being a risk-taker is directly related to the ability to achieve innovation. Without risk takers in businesses, there is little opportunity to find innovative ideas, which often occur by mistake. Innovation requires leadership and organization to

flourish. Innovation and organizational structure are in high demand for any company.

Managers who engage employees via transformational leadership are an effective catalyst for influencing organizational creativity, and innovation can be meaningfully connected to the social processes of optimizing and enhancing adaptability (Gumusluoglu & Ilsev, 2009; Parry, 2002). The social aspect of leadership is evident in leaders taking responsibility for innovative ideas and their boundaries. How well an individual uses these strategies could cause a change in how leadership comprehends the recommendations. Janis (1971) found that organizations had a habit of having individuals abandon innovation and new ideas for team unity and loyalty. Drucker (2002) found the changes in industry structures enable risk-takers to develop innovative solutions and be able to benefit from them. Successful businesses can be profitable if the company does not become complacent.

Innovation is important to human life. Without creativity, humans would not be motivated at all. For example, people would not have telephones, electricity, air conditioning, televisions, computers, or many other so-called necessities without the link between creativity and innovation. Without innovation and creativity, development or recovery would not happen. The innovator needs to feel inspired, while creativity requires concrete measures to be taken along with the ideas to generate new inventions.

Therefore, both creativity and innovation are essential elements of any business. If a leader can see the big picture, envision and evaluate the outcomes in advance, and consider supporting evidence, then the leader can influence the company to employ such as an employee. Punishment of risk-takers and entrepreneurs in the company will continue to restrict the company. Trial and error must occur at times on

the path to productive conclusion. Drucker (2002) found that being a risk-taker is one of the primary drivers of innovation. Without these individuals in firms, innovative findings will not happen. Leaders and followers should develop and implement innovations together. Sometimes, it takes a team effort to create innovations, and team collaboration and decision making are vital to maintaining and promote. Followers and leaders can work together, and neither is relevant without the power of the other.

According to Parry (2002), innovation is socially related to adaptability; the relation means one must feel comfortable in his or her environment to be innovative. Being comfortable in one's environment to heighten innovation comes with knowing and adhering to identified boundaries. Organizations sometimes support innovation, while the others try to limit it to have greater control. Innovation is beneficial for any business because it allows for more ideas and proactive changes in the business environment. While ideas may not be necessary or accepted, it does not hurt managers to hear about them. More importantly, all who innovate should have a voice. As Rosener (1993) stated, women do not always have an equal chance to contribute to innovation. It makes sense to foster innovative ideas in all those who have an interest.

The innovative formula helps the company determine opportunities, potential projects, or needed results. Deal and Kennedy (1982) stated that a strong culture was a powerful lever for guiding behavior; it helps employees to do their job a little better. This philosophy is not conducive to individual employee innovation. Not implementing new and innovative ideas can cripple the operations of a company. Deal and Kennedy, as well as Schein (1992), discussed the need for leaders to become aware of the culture of the enterprise and to make a determination of its regulations on

innovation and development. Regulations perceive to influence leaders to develop a culture of change/innovation for the company to keep functioning over the long term.

A leader must have a vision, creativity, and a willingness to participate in the tasks and goals of the company. Leaders need to develop and create a plan for the company, improve working principles that will accompany the work and plan, and identify the steps needed to ensure that these things happen (Sashkin, 1989). Leaders can begin the process by showing employees that they will be proactive and participate in the new changes. Groups can be formed, and leaders can identify individuals to lead these groups. Leaders can build up followers and verify their success, which are then reflected in the success of the company. Leaders need to find ways to think outside of the box, and yet stay abreast of advancements in technology and individuals. Finally, a leader can always conduct research and see what other successful businesses are doing and try to implement some of the same strategies. One key thing to remember is the leader needs the business, and the team needs a leader to move the company forward.

Schein (1985) might say that leadership in an organization is one of the defining components of the existing culture. Schein identified five primary mechanisms for setting in a culture in an organization:

- (1) What leaders pay attention to, measure and control, (2) leader reactions to critical incidents and organizational crises, (3) deliberate role modeling, teaching, and coaching by leaders, (4) criteria for allocation of rewards and status, and (5) criteria for recruitment, selection, promotion, retirement, and excommunication. (p. 224)

In cultural behavior common in large organizations, it is difficult to make any changes. Leadership in large organizations is usually only willing to adjust its



behavior to minor problems. As Gardner (1990) noted, employees are often disconnected from management, resulting in an easy dismissal of innovative ideas. It is important for leaders to recognize employees and find what changes could increase efficiency in the organization.

An organization needs the team and followers to be effective. A leader plays a major role in advancement of the company. Leaders play a part in the development of the company, its vision, and its transformation. Leaders are responsible for ensuring that followers embark on the learning process and move the business forward (Darling, 1994). Innovation is about the followers improving the company. For a company to maximize its profits and succeed, it must follow the direct relationship between employee innovation, performance, and profit.

A company needs a team of talented marketing strategists who can create a successful product for the market. A company also needs trained managers who use organizational performance tools to learn and work with employees, use the resources available to build a challenging business environment, optimize team productivity, and install effective channels of communication.

Figurative language, symbolism, and uncertainty may trigger innovation. These deviations from the norm allow employees to understand how their individual efforts contribute to the overall goal. Organizations must do everything to honor and reward people and strengthen the culture. This belief encourages the vibrant, creative spirit the company strives to achieve. Moving has been and continues to be an essential, strategic operating principal in corporations, one that has been a strong driver of rapid success. The company must empower its employees to look for new and innovative approaches. Developing and learning to combine a strong emphasis

on innovation through shared problem solving is crucial for long-term company success.

The company learns from external business information. Beckhard and Pritchard (1992) said, “The leaders of the organization must have a clear vision of the desired end-state of the entire system, including such dimensions as its business, its organization, and its ways of working” (p. 398). Creating a learning organization is essential to the success of corporations; a learning organization encourages interaction through socializing, cross-disciplinary learning experiences, active experimentation, and developing learning structures. Building an innovative culture in a business environment is important, and a manager who promotes an innovative culture must have a winning attitude as a primary trait. For example, if a manager brings a new idea to a supervisor and the manager is flexible, allowing for employee growth and error, the outcome may include the development of employee confidence to innovate. Without this support, the innovative company will fail.

Sometimes the organizational structure of a company prevents planned transformations from being achieved. In these cases, the company must devise other strategies to achieve its goals. The purpose in these cases might be a more efficient and effective knowledge management. According to R. L. Hughes et al. (1993b),

Socialized power, on the other hand, implies a more emotionally mature expression of the motive. Socialized power is the practice in the use of higher goals to others or companies and usually involves unselfishness toward those ends. If it often includes an empowering rather than an autocratic style of management and leadership. (p. 347)

In this case, innovation is future-focused, establishing standards and creating demand. Establishing standards and creating demand are one purpose of innovation. A leader

finds something that needs to be improved, figures out how to improve it, implements the improvement on a limited basis, and then persuades others to opt in and apply the innovation throughout the business.

As Yukl (1998) said, lower level managers usually do not have the influence and flexibility to introduce new and robust solutions. The manager must be aware of follower performance and ensure the follower is heard, understood, and has appropriate standing. Influence also depends on the person's perception of the organizational processes, which directly correlate with the quality of decisions taken to exercise leadership. True innovation in an organization can come from companies creating an atmosphere that is conducive to create new ideas. Hiring creative employees and confining them into a rigid, system-driven approach reduces their ability to be creative, but changing an established organizational culture is not easy and presents challenges of its own. Although there are many positives in giving freedom to employees, there could be negatives, too. Certain individuals on the development team may feel unimportant, which can reduce their morale and job satisfaction. There are numerous benefits to increasing the innovativeness of a company.

It is essential to have a strong focus; at times, focusing can be difficult, but it can be a lesson learned and used later in life. As Yukl (1998) said, innovation usually takes the form of small steps of being more efficient before a new idea is implemented in large-scale and expensive projects. Taking small steps reduces the risk in moving forward in the innovative process. There is a belief that only the highest-ranking company managers have the freedom to establish innovative programs, whereas lower and middle managers do not have that flexibility. Yukl stated that lower to mid-level managers tend to have fewer options to propose and

enact innovative business strategies, often confined to working within the existing company structure. Often, others shut down innovative ideas because they are afraid of change. Srinivasan, Lilien, and Rangaswamy (as cited in Spanjol & Tam, 2010) stated, "Successful innovation depends critically on the ability of organizations to implement change and organizations that demonstrate lethargy and are resistant to endanger their business and even survival" (p. 346).

Critical thinkers see beyond standard practices; they see possibilities. Effective leaders increase both motivation and confidence, but when these qualities have been gravely diminished, leaders have a difficult time leading (Gardner, 1990). Implementing new ideas is a good idea in a slow economy. Each company must be prepared and ready to change. According to Shavinina (2011), most organizations realize the greatest way to increase corporate profits is through innovation. The activity of innovating is useful in the learning process. Leaders are aware of innovative practices and may subscribe to the transformational leadership belief that leaders can transform their followers, which motivates followers to work to achieve goals.

### **Innovational Leadership Theory**

With the increase in business competition resulting from globalization and technological advances, many researchers have focused on understanding innovational leadership approaches to carry out business. According to Wolfram and Gratton (2014), innovational leadership describes leaders who inspire creativity and innovations among their followers as a way of adapting to changing environment and industry trends. Innovational leaders have the ability to inspire change when needed. Penlington and Holmstrom (2013) asserted that innovational leaders not only understand when to implement change, but also have the skill to abandon projects that

are not working. They know when there is a need for change and how to incorporate such change in carrying out organization processes.

According to Pearce and Sims (2002), innovational leaders have the ability to empower followers to think of creative ways to implement organizational strategies. Path-goal theory is the origin of innovational leadership theory, which stipulates the need for different leadership styles to accomplish organizational goals. The aim of innovative leadership is to create an environment where the leadership style fits the concerns and aspirations of the followers involved in corporate activities. The adoption of innovational leadership is directly proportional to the expansion of technology in organizations.

The leadership style utilized depends on an environment that supports a change of organizational processes. Hannah et al. (2014) argued two principal components describe the innovational leadership style, which include an innovation approach to leadership and leadership for innovation in an organization. As explained in the following sections, the two elements illustrate different views of innovational leadership.

Leadership for innovation does not focus on the ability of leaders to generate innovation. According to Almer et al. (2011), the concept explains that leaders should not only be innovative themselves, but also be willing to encourage other individuals in the organization to embrace innovation. They must have the ability to create an innovative way of thinking in which creativity and idea generations are valued in the organization. Almer et al. argued innovational leadership does not entail hiring a few innovative individuals; it requires developing an innovative culture. The leadership for the innovation concept requires leaders to focus on new areas of innovation and be ready to establish new areas where innovation is needed. Characteristics of such

leaders include their ability to study competition and to create new ways of overcoming the competition or any challenge that may face their organizations.

Lang et al. (2014) asserted that it is possible to understand leaders who are innovative by looking at their behavioral traits. Such leaders are likely to have a profound understanding of the stakeholders' needs and ways of meeting the needs of all involved stakeholders. Most innovational leaders have a clear strategic vision that communicates the need for continuous innovation to all employees. Most innovative leaders are also blunt and straightforward in their communications with involved stakeholders. Such leaders are open to corrections from their followers and can even change their views when a follower's view is more beneficial to the goal. According to Comprix and Huang (2015), innovational leaders do not apply their past ways of thinking or beliefs when deciding on ideas that affect their followers or organizations. Such leaders use their imagination to accomplish organizational objectives.

In analyzing several innovative leaders, Forbes magazine found that Marc Benioff was among the most innovative leaders in the modern world. Benioff, who is the founder of Salesforce.com, apparently uses content marketing and creative marketing campaigns aimed at attracting customers (Wolfram & Gratton, 2014). Benioff's innovative approach is the driving force behind Salesforce.com being rated as the most innovative company (i.e., Forbes magazine in 2011, 2012 and 2013). Another leader who practices the innovational leadership style is Elon Musk, who has transformed the transportation industry. His action at Tesla Motors and Space X companies demonstrate the use of innovation in building the reputation of these enterprises.

A lack of definitive results is one major criticism of the innovational leadership. It is impossible to know the likely outcome of an innovative leader's

actions before implementation. Implementing innovational leadership requires an intensive investment of resources and time that small companies may lack.

According to Lang et al. (2014), innovational leadership requires extensive research and development activities that consume major organizational resources. Despite the criticism, empirical evidence shows that it is impossible for modern organizations to withstand competition without implementing any form of innovation.

### **Leadership Needs of Large Accounting Firms**

There is a large body of research on leadership and management of large accounting firms because of the proliferation of these companies throughout the world. Most accounting firms are small service industry businesses. According to Pearce and Sims (2002), the leadership needs of large accounting firms are similar to those of most small businesses operating in the service industry. Due to the collapse of many large accounting firms over the years, research on proper leadership styles in large accounting firms has been inconclusive. Therefore, there is a need to understand the leadership requirements of large accounting companies with the aim of understanding whether they differ from the leadership needs of other business types. The leadership needs of large accounting firms include providing expert services for the clients of the organization, managing employees, dealing with external stakeholders, and providing the direction of the business such as the succession plan.

### **Providing Expert Services to Clients of the Organization**

According to Mastrangelo, Eddy, and Lorenzet (2014), the central responsibility of a leader of a large accounting firm is to guide the company in its provision of services to customers. Because the leaders of most large accounting firms are likely to be the founders of the enterprise, they have the central responsibility of focusing the efforts of the company to deliver services in the

industry. The services offered by large accounting firms include auditing services, tax consulting services, general accounting services, and management consulting.

Mastrangelo et al. found the leaders of the business determine areas of concentration for services the firm offers. Accounting firms exist to provide expert services to clients. Without an adequate number of clients, smaller accounting firms will cease to operate in certain sectors.

With the increase in globalization and multinational accounting firms operating in various countries and regions, leaders of large accounting firms must innovate to remain relevant in their provision of services. Most clients are likely to be attracted to the big companies, which they perceive to offer services of higher quality than those offered by smaller accounting firms. Innovation is essential for meeting the client's needs to help a large accounting firm to compete against even larger accounting firms. Without a change that focuses on constant service improvement, a large accounting firm is likely to fail within the first few years after launching operations.

The leaders of the both the large and larger accounting firms are tasked with maintaining the high accounting standards that regulate the accounting industry (Almer et al., 2011). However, unlike big businesses that have quality assurance departments that analyze adherence to accounting and auditing standards, leaders of large accounting firms are personally responsible for maintaining the standards. Hutchinson, Mack, and Verhoeven (2017) asserted that leaders of large accounting firms who lack knowledge of the industry standards are likely to lose clients because services provided by their firms will not meet industry standards. Leaders are central in ensuring adherence to all accounting standards.



Leaders are responsible for any change in service delivery due to changes in generally accepted accounting practices (GAAP) related to international accounting or auditing standards implementation in a large accounting firm. Leaders must be highly knowledgeable and have a high interest in understanding any change that occurs in the accounting field (Almer et al., 2011). Service delivery is the responsibility of leaders who must understand the clients' deadlines and come up with sound policies to meet such deadlines always. The leaders are also obligated to communicate with clients on any changes in service delivery because of change of personnel, accounting standards, or any other factor.

According to Mastrangelo et al. (2014), accounting firm leaders must also establish benchmarks for service improvements in their organization. It is their role to identify best practices from multinational and small businesses to incorporate into their services. Benchmarking helps to improve the quality of services offered to customers. Leaders must implement positive attributes of firms offering similar services and learn from the mistakes of others (Almer et al., 2011). Mastrangelo et al. argued that leaders of accounting firms must assure clients the quality of the services offered will continuously improve.

### **Managing and Motivating Employees**

According to Baron and Parent (2014), the leadership function of managing and motivating employees in large accounting firms will determine whether the business will succeed or fail in its function. In many accounting firms, employee turnover is high because most employees who do not get promoted look for new firms in which they might become partners or leaders. Specialization in the field of accounting means the loss of an experienced employee could lead to a loss of accounting clients; some clients return year after year to continue their relationship

with specific employees (Almer et al., 2011). Large accounting firms have a flat organization; employees have multiple responsibilities, and their needs have relatively equal value. This organizational structure places an extra burden on leaders to support all employees equitably.

Recruitment strategies of large accounting firms determine their ability to attract quality employees. According to Comprix and Huang (2015), the failure of many large accounting firms rests with the inability of their leaders to attract qualified personnel who offer quality accounting services in the organization. Most large accounting firms are likely to use the traditional strategies of recruitment, such as advertising for job openings and interviewing interested applicants. Empirical evidence shows traditional advertisement strategies do not enable a small business to acquire quality personnel. It is impossible to determine an applicant's talent based on an interview. Comprix and Huang argued the big accounting firms differ from the large accounting firms on their ability to attract qualified personnel. Unlike large accounting firms, leaders of big accounting firms have shown their ability to fulfill assessment tests during recruitment, a practice that helps to measure ability and talents of potential employees before employment.

Another notable difference between the leadership needs of large accounting firms and larger accounting firms is that small businesses target employees with prior experience rather than employees with education and training but no experience. According to Hutchinson et al. (2017), large accounting firms lack sufficient capital for employee training and development. However, some leaders of large accounting firms who have extensive skills and experience in accounting may offer personal training services to their employees using their own time and expertise. Orphanos and Orr (2013) asserted that large accounting firm leaders must not only act as the

managers of their firms, but also must offer training and development services to their employees when the company lacks formal training and development services. Some large accounting firms have outsourced their recruitment, training, and development activities to external partners as a way of implementing training activities.

Leaders of large accounting firms are responsible for strategizing employees' compensation. Unlike big accounting businesses that have implemented sophisticated reward strategies that include monthly salary and annual bonuses for their employees, many large accounting firms offer monthly salaries as the only form of employee compensation (Almer et al., 2011). Limited options for remuneration strategies are another reason large accounting firms have a high turnover. A review on employee satisfaction found that 60% of the employees in large accounting firms are dissatisfied with their benefits. The level of dissatisfaction was high in comparison with the level of dissatisfaction (20%) at large accounting firms.

The way leaders communicate to their employees also influences the quality of services provided by an organization (Almer et al., 2011). Large accounting firms require leaders who can understand the employees. They manage and come up with solutions for problems that employees may encounter. These firms need leaders who can employ modern strategies of communicating with employees, such as the use of technology to ensure that all employees in the organization receive information in a timely and efficient manner. Transformational leadership addresses this need and increases employees' satisfaction and promotes team coordination (Rothfelder et al., 2012; Zhang, Cao, & Tjosvold, 2011). According to Baron and Parent (2014), leaders should not only be able to pass information to employees, but also should be able to receive employees' concerns and address them promptly.

Leaders in accounting firms are tasked with developing reward strategies for employees' work. Leaders' ability to implement appropriate compensation policies determines the employee motivation (Almer et al., 2011). Due to a lack of adequate financial resources, leaders of most large accounting firms have adopted nonfinancial benefits as a way of motivating their employees. Flexible hours and recognition for exemplary work are common strategies adopted by such leaders. Prencipe, Bar-Yosef, and Dekker (2014) asserted that reward systems approved by leaders of large accounting firms are not adequate to motivate employees' optimal performance. Accounting professionals will work in organizations with consistent job security, better creativity and innovations, superior problem solving, and top performance (Griscombe & Mattis, 2002).

### **Managing External Stakeholders**

One of the key roles of leaders in large accounting firms is coming up with strategies for managing external stakeholders. Leaders of large accounting firms must establish ways to communicate effectively with local and government organizations (Foti et al., 2017). While corporate social responsibility regulates the interaction with local communities, statutory requirements of GAAP that guide the profession regulate government communication (Almer et al., 2011). When providing accounting services, large accounting firms are not only responsible for their clients' interests, but also the interests of the government and communities that surround them.

There must be alignment between the leadership needs of large accounting firms and the communities affected by operations of those firms. According to Baron and Parent (2014), accounting firms should not only focus on activities that will generate profit, but also on strategies that can enhance the interests of all stakeholders

involved. Leaders of large accounting firms should engage the company in solving problems that perceived to affect the local community.

Leaders of large accounting firms, in serving their communities, often implement corporate social responsibility activities (Foti et al., 2017). These activities include financial literacy education; employees of the accounting firm educate the community on basic bookkeeping skills. Some leaders also guide their accounting firms in solving social ills, such as providing training and health services. However, in comparison to big accounting firms, large accounting firms engage in fewer social responsibility activities (Foti et al., 2017). The main reason for this decreased involvement is that they lack sufficient resources to solve problems of the local communities. Unlike large accounting firms that have a department tasked with dealing with community activities, the leaders of large accounting firms are responsible for this work.

Large accounting firms owe a duty of care to local communities when they work with public clients. They must report fraud cases to the local and the federal government as a way of preventing corruption and fraud activities that are detrimental to local interests. The accounting leaders must also ensure that clients provide correct tax information reported to governments. Despite client pressure, many accounting leaders aim at providing accurate tax information to interested organizations. Leaders of large accounting firm leaders not only be creative to improve the quality of the services they give to their clients, but also must be creative to address the concerns of all involved external parties.

Large accounting firm leaders must also provide guidance on membership and contribution to professional bodies. Prencipe et al. (2014) asserted that most employees of large accounting firms are not members of accounting and auditing

bodies because the firms lack sufficient funds for membership fees. Despite the inability to fund memberships for their employees, leaders of these firms must not only comply with the regulations of the professional organizations, but also guide employees to become members of accounting professional bodies (Foti et al., 2017). The professional organizations have a positive influence on the quality of services provided; they promote ethical approaches to adhering to national and internal work standards.

### **Providing Direction to the Firm**

A leadership need that is unique to large accounting firms is a leader who can define the direction the business will take. According to Machold, Huse, Minichilli, and Nordqvist (2011), most large accounting firms depend on their leader to the point that the loss of the leader means failure of the enterprise. Leaders must have succession plans to ensure the firm continues to function without the leader. According to Machold et al., large accounting firms that have a succession plan are likely to operate even after the founders have retired, in comparison with the firms that have no form of a succession plan.

Succession plans involve identifying potential leaders who could take over operations of the firm after the current leaders retire (Brookes et al., 2014). Leaders must identify able and talented personnel who can continue or improve operations of the firm without the leader (Foti et al., 2017). Leaders may identify existing employees in the organization or seek new hires who possess the desired leadership qualities (Brookes et al., 2014). Leaders of large accounting firms must determine the growth potential of their firms and create strategies for realizing growth. The case for leadership development is important to ensure organizational continuity.

According to Ford and Harding (2015), the leaders of an accounting firm create strategies for adopting technology to improve processes. Leaders determine the accounting technology adopted to meet the goals of the firm (Dust, Resick, & Mawritz, 2013). The failure of some of the large accounting firms is associated with their leaders' inability to select and implement effective technologies (Brookes et al., 2014). Most accounting firms partially adopt new technologies, but are likely to revert to old procedures or old technology rather than focus on new effective technologies to improve business processes.

Strong leadership is required to communicate the vision of the organization and to ensure every member of a large accounting firm shares a common goal. Leaders also influence acceptance of technology through communicating information about the benefits new technologies might confer; innovation leaders achieve extraordinary things in new ways (Shavinina, 2011). According to Ford and Harding (2015), stronger leadership is a fundamental to determining whether an organization can consistently embrace modern technology. Large accounting firms are not only concerned with the technology in offering its services, but also the ability to use the technology for future functions; innovation leadership encompasses creativity and efficiency, high tolerance for risk, and drives innovation in organizations (Bel, 2010; Shavinina, 2011).

### **Leadership Challenges in Large Accounting Firms**

All leaders of large accounting firms face one big problem. Unlike other fields in which there is an unobstructed flow of authority, it is difficult to distinguish between leaders and followers in accounting firms. Most employees of large accounting firms are likely to have extensive professional knowledge about their work; as such, there may be problems with taking orders from senior staff. According

to Dust et al. (2013), there is rampant ambiguity in firm professional leadership. There are two distinct characteristics of the leadership challenge in large accounting firms: broad individual authority and contingent managerial autonomy.

### **Extensive Individual Autonomy**

Lawyers first introduced extensive personal freedom in arguing in the common-law courts in the United Kingdom (Ford & Harding, 2015). Lawyers sought individual autonomy to have the authority to decide what could benefit their clients during courtroom sessions. The rise of other professional fields, such as information technology and accounting services, has led to the adoption of the concept in understanding how to manage employees. Most accounting firm employees are experts in their professional areas and require autonomy in the way they offer their services.

Accounting firm decisions are derived from the expert observation of business employees. Extensive individual freedom is justified because it allows employees to be independent when coming up with a professional opinion (Ford & Harding, 2015). In an accounting firm, client relationships and technical knowledge manifest with specific employees. Problems arise with the leader's need to provide direction without interfering with the employee's expert work. Large accounting firm leaders are concerned that their leadership strategies may interfere with employees' ability to maintain the autonomy essential for the success of their firms (Ford & Harding, 2015). They usually attempt to create strategies to help employees maintain their autonomy to make the best expert decision on a consistent basis.

### **Contingent Management Authority**

Because of the employee-owned dynamic of most accounting firms, a leadership problem may exist because of contingent management authority.



Accounting firm employees who are also partners choose their leaders by voting. If many partners disagree with the leaders' actions, the partners have the power to vote out those leaders. In accounting firms, leaders can only act through consensus; some of their partners may have influence in the firm even when they lack a leadership position. According to Dust et al. (2013), leaders in large accounting firms must be able to understand the shifting authority among their employees and partners so that they can manage effectively in the organizations that they lead.

A unique aspect of professionals in leadership roles is the limit of their authority. A leader's influence over clients of an accounting firm and the professional expertise of the employee determine the leader's authority. According to Foti et al. (2017), the employee who can control the two resources of influence and authority has more authority than any other employee in an organization. Taking a leadership position may weaken the authority of a professional in a large accounting firm. While other employees can further their education and look for new clients, taking a leadership position may reduce a leader's availability to court new clients or serve existing clients. Dilution of a leader's authority may occur; managing an organization can interfere with a leader's expertise development. Without higher skill than their employees, it is impossible for leaders of large accounting firms to guide their followers in carrying out organizational functions.

### **Impact of Leadership Style on Service Delivery and Innovations of Large Accounting Firms**

There has been extensive research aimed at understanding the effect of adopted leadership style on the service quality and innovation of large accounting firms. Some researchers have compared the effect of transactional and transformational leadership on the service delivery implemented by accounting firms

(Gatling et al., 2016). With the increase in understanding of innovational leadership style implemented by effective leaders such as Elon Musk, some researchers have focused on innovational leadership in accounting firms. The section that follows is a review of the literature on the application of transformational, transactional, and innovational leadership in large accounting firms.

### **Application of Transformational Leadership in Large Accounting Firms**

Most of the literature on the application of transformational leadership in large accounting firms has focused on how transformational leaders can influence employees in these firms to work for a common goal (Gatling et al., 2016). The empirical research shows there is limited evidence that leaders of large accounting firms are transformational leaders. Most employees in accounting firms do not want to be perceived as followers, which can undermine the transformational leadership process (Gatling et al., 2016). Due to professional expertise, most employees of large accounting firms consider themselves as leaders.

Large accounting firms need leadership. Baskerville and Hay (2010) argued that in motivating employees, transformational leaders must focus on the quality of services offered by the organization. Leadership requires leaders to act as role models with an idealized influence over other employees; their actions are likely to affect other employees to focus on their best quality when offering services to target employees (Prencipe et al., 2014). Transformational leaders can help accounting firms maintain their capital base by implementing positive changes to improve the quality of services provided in the organization. By acting as role models for other employees, transformational leaders can perceive to influence implementation of ethical behavior in leadership positions.

In many large accounting firms, employees manage common challenges when offering services to clients of the firm. Common problems include difficulties in complying with new accounting standards and technical accounting problems (Prencipe et al., 2014). Through intellectual stimulation, transformational leaders can change the employees' views and help them perceive problems differently. Through intellectual stimulation, it is possible for leaders to help employees solve common problems and motivate employees to think critically. By solving common problems, transformational leadership can foster gradual improvement of services offered to accounting clients.

Despite the professionalism that exists in accounting firms where all employees consider themselves to be equal with other employees, transformational leadership plays a central role in creating enthusiasm for work (Prencipe et al., 2014). By consistently communicating the long-term goals of the firm to employees, transformational leaders motivate employees to look beyond their present predicaments and focus on a bright future. Transformational leaders are a consistent source of encouragement to employees. According to Armstrong and Muenjohn (2014), motivated employees work hard to implement organizational goals, in comparison to employees with less motivation.

Individualized consideration makes transformational leadership an excellent leadership style for large accounting firms. The concept is similar to the target of many professional employees who want to improve themselves while also carrying out organization functions (Machold et al., 2011). One of the aims of transformational leadership is to improve service. Transformation leadership delivers improved service by uplifting employees involved in activities of the organization. Individuals can be lifted up through education programs on with new accounting

standards. Employees in large accounting firms will support transformative leaders if those leaders provide learning opportunities to improve employees' ability to offer services to clients. Transformational leadership is accompanied by the adoption of innovative ideas for implementing objectives in the accounting firm to solve service delivery problems. According to Dust et al. (2013), the long-term viability of a large accounting firm improves when the leaders demonstrate transformational leadership qualities.

### **Application of Transactional Leadership in Large Accounting Firms**

Leaders of most large accounting firms are unlikely to use charisma to influence their employees to strive to meet organizational goals. They usually set targets for each employee and reward employees who are about to meet goals. Employee remuneration in most large accounting firms depends on the client base. Because of negative and positive reinforcement, transactional leadership ensures employees realize their organizational goals. Benefits offered to employees who reach targets, a standard common in transactional leadership, improves employee motivation to meet organizational goals (Machold et al., 2011). Performance appraisal systems allow for measurement of organizational goal attainment by individual employees. By using a performance-based employee benefit system, Dust et al. (2013) argued that transactional leadership might improve organizational service delivery. Rigidly following a set of standards in carrying out organization activities is evidence of transactional leadership in large accounting firms.

The failure of many large accounting firms is associated with their adherence to transactional leadership. According to Foti et al. (2017), most large accounting firms focus on realizing the immediate goals rather than an emphasizing long-term continuity of the firm. Sometimes accomplishment of short-term goals occurs at the

expense of the long-term financial health of the company. Transactional leaders usually focus on company results and ignore important factors such as the corporate social responsibility that may create a long-term support for the enterprise (Machold et al., 2011). Employees are also likely to resent not receiving the space within which to demonstrate their expertise in carrying out organization activities.

Another criticism of true transactional leaders is their inability to consider differing opinions. Foti et al. (2017) contended some employees of a large accounting firm might have more information than the leaders. Application of pure transactional leadership is likely to stifle innovation in the organization because employees lose the opportunity to think creatively. Transactional leadership leads to an overreliance on the leader to make all the decisions (Machold et al., 2011). However, innovation under transactional leadership in a large accounting firm may still be realized when leaders tie employee benefits and appraisals to generating new ideas or adopting of new technologies to carry out accounting activities (Machold et al., 2011).

Despite the disadvantages of transactional leadership in large accounting firms, Eusden and Pierini (2015) explained many employees support this style of leadership. Support for this leadership style emanates from its ability to allow employees to focus on their interests when carrying out organizational functions. Unlike the transformational leader who concentrates on making every employee devoted to the organization, transactional leaders recognize the relationship between the accounting firm and its employees. The employees receive a reward in exchange for their organizational support.

### **Application of Innovational Leadership in Large Accounting Firms**

Despite the lack of literature on implementing innovational leadership in large accounting firms, several studies have explored the application of innovational

leadership in small service companies. Innovational leadership is a new leadership concept not yet widely adopted in the accounting industry. Adherence to precedents, principles and standards in the accounting industry explain why many accounting firms fail to adopt innovational leadership.

Despite the traditional nature of the accounting field, new technologies and globalization in different parts of the world have forced accounting firms to seek innovational leadership to retain their competitive edge. Most large accounting firms require their leaders to embrace new technologies, procedures, and innovations, such as inputting client information via the Internet. The inability of leaders and employees to come up with innovative services that meet the changing needs of their customers can lead to failure of large accounting firms.

The case for innovative leaders hinges on the effectiveness of the leadership style in forming working teams that are effective in reaching organizational goals. With creative leadership, it is possible to form teams in which employees focus their expertise on a particular subject. Businesses can create innovative ways of service delivery to meet stakeholders' needs. Innovative leadership also offers employees a chance to demonstrate their talents in the accounting firm and improve the quality of the service delivery.

Large accounting companies that implement innovational leadership can establish innovation in the accounting profession. Betchoo (2015) explained that gender equity in leadership has resulted from accounting firms that use innovational leadership. Because leadership style focuses on continuous improvement and new ways of leading, innovational leaders in accounting firms are unlikely to shun female leaders. Other innovations involve the adoption of accounting technology to help large accounting firms compete with multinational counterparts. It is easier for a

large accounting firm to build an innovative culture because the firms have a less entrenched culture than other sized firms. Big accounting firms have faced challenges in developing new recruitment procedures because they follow a longstanding positive hiring culture. Small accounting firms can more easily abandon practices they believe are unfavorable to their operations, in comparison with the large firms. Innovational leadership involves the capacity to abandon ineffective ideas; large accounting firms are better positioned to implement innovational leadership than are big, major accounting firms.

Adequate funding is a common obstacle to innovation in large accounting firms. Implementing accounting information systems requires a sizeable initial capital investment that large accounting firms may not have. Despite the initial investment, a cost-benefit analysis shows that large accounting firms are likely to benefit greatly from implementing process change. Having a clear goal to carry out organizational activities also explains why some large accounting firms shun innovational leaders. There is a perception that innovative leaders do not have a specific objective in carrying out organization goals. However, many accounting firms are now embracing innovational leadership. Through innovation, it is possible for large accounting firms to expand quickly and exponentially, enabling them to compete with multinational accounting firms.

### **Limitation of Current Studies**

Despite extensive literature on leadership theory and leadership in accounting firms, few studies have focused on understanding the implementation of different leadership styles in accounting firms. Most literature on leadership theory concentrates on leadership problems faced by large accounting firms rather than the

role of leadership in improving the quality of the services offered. The current literature provides no solutions to the leadership deficiency in large accounting firms.

Another gap in the literature is the effect of combined leadership styles on leaders in large accounting firms. Studies have focused only on the effect of transformational, transactional, and the innovational leadership styles on company operations. There is a need to understand whether a combination of the three leadership styles may be effective in creating change in an organization. The question is whether leaders who show some aspects of transformational, transactional, and innovational leadership may be more efficient in creating innovation and improving the quality of services provided by large accounting firms in comparison with leaders who show one style of leadership.

The current literature review is not adequate to analyze innovational leadership and its application to the service industry. Most of the literature on innovational leadership focuses on providing products rather than services. There is limited literature on whether small firms in service industries can benefit from innovational leadership. There has been little comparison between innovational leadership and other types of leadership styles, such as the transformational and transactional leadership. Most of the literature compares transformational and transactional leadership, but ignores comparisons with innovational leadership.

The problem of defining followers and leaders in accounting firms is one reason for the dearth of leadership research in this industry. Unlike other industries in which the role of leaders is well-defined, accounting service employees may not consider themselves as followers of a leader. There is a need for research on leadership in large accounting firms because accounting employee motivation might differ from the motivation of employees in other industries. For example, there have



been questions on whether innovational leadership implemented in the information technology industry would have the same success in the accounting and financial sector. More research is needed to explore this theory in the accounting and financial sector.

## Chapter 3

### Methodology

This chapter includes a discussion of methodological aspects aligned with the overall research process and the pursued objectives. The chapter begins with a restatement of the research problem underpinning the research interest and focus. The importance of this inquiry is explained, supported by the research questions and hypotheses formulated to govern the research process. There is an introduction to the selected research methodology and rationale for the choices made, proceeding with a detailed discussion of the research design.

Next, the discussion focuses on the target population and sample selection procedures, followed by instrument design. The subsequent discussion concentrates on the criteria of validity and reliability as part of the research design. Finally, there is a discussion of data collection and analysis procedures, followed by a discussion of ethical considerations, limitations, and delimitation measures. A mixed method design was applied, which involved utilization of a qualitative questionnaire to capture employees' experience with accounting leadership and a quantitative survey to measure leadership variables.

#### **Restatement of the Problem**

This study addressed the specific problem of transactional leadership style contributing to organizational failure (Agle et al., 2006; Khattak et al., 2014) and employees' poor performance (Allen et al., 2007; McMahon, 2010). This study is an attempt to close the existing knowledge gap outlined in Chapter 2 by investigating how specific features of transactional and transformational leadership styles work together with innovation to affect employee performance and organizational success (IFAC, 2016).

## **Research Questions**

The purpose of this research was to provide an improved understanding of transactional, transformational, and innovation leadership styles in accounting firms. In the immediate pursuit of discovering the effect of combining transformational and transactional leadership qualities with innovation on organizational performance, innovation is perceived as a complicated matter constituted by individual employee engagement and productivity driven by motivation and commitment. With this understanding in mind, this study examined relationship between these vital organizational indicators and suggest recommendations for effective accounting leadership. In line with these goals, a list of research questions were formulated to govern the overall research process. The research questions were as follows:

1. What, if any, relationship exists between the transactional leadership style and employee performance in large accounting firms in Massachusetts?
2. What, if any, relationship exists between the transformational leadership style and employee performance in large accounting firms in Massachusetts?
3. What, if any, relationship exists between transactional/transformational leadership styles and innovation in large accounting firms in Massachusetts?
4. What, if any, relationship exists between leaders' innovation skills and employee performance in large accounting firms in Massachusetts?
5. What is the perceived relationship of transformational leadership, transactional leadership, and innovation to overall organizational success in large accounting firms in Massachusetts?

## **Research Hypotheses**

The primary focus of this study was to examine the relationship between leadership style and organizational success. This focus was explored by

distinguishing different types of leadership and innovation strategies in large accounting businesses. The research questions in this study were constructed to be answered mainly using a quantitative methodology, with the exception of Hypothesis 5, which was determined by qualitative data. The null and alternative hypotheses directed the purpose of this quantitative study.

Research hypothesis ( $H_A$ ): Leadership and innovation affect the organizational success.

Null hypothesis ( $H_0$ ): Leadership and innovation have no effect on organizational success.

In searching for answers to the research questions, this study tested the following hypotheses:

H1 $_A$ : There is a statistically significant relationship between transactional leadership style and employee performance in large accounting firms in Massachusetts.

H1 $_0$ : There is no relationship between transactional leadership style and employee performance in large accounting firms in Massachusetts.

H2 $_A$ : There is a statistically significant relationship between transformational leadership style and employee performance in large accounting firms in Massachusetts.

H2 $_0$ : There is no relationship between transformational leadership style and employee performance in large accounting firms in Massachusetts.

H3 $_A$ : There is a statistically significant relationship between transactional/transformational leadership styles and innovation in large accounting firms in Massachusetts.

H3<sub>0</sub>: There is no relationship between transactional/transformational leadership styles and innovation in large accounting firms in Massachusetts.

H4<sub>A</sub>: Innovation skills and competencies of leaders have a statistically significant relationship to employee performance in large accounting firms in Massachusetts.

H4<sub>0</sub>: Innovation skills and competencies of leaders have no relationship to employee performance in large accounting firms in Massachusetts.

H5<sub>A</sub>: Employees of large accounting firms in Massachusetts perceive a strong relationship between transformational leadership traits, transactional leadership traits, innovation, and overall organizational success.

H5<sub>0</sub>: Employees of large accounting firms in Massachusetts do not perceive any relationship between transformational leadership traits, transactional leadership traits, innovation, and overall organizational success.

Hypothesis testing theory was used to determine the limits of the population to solve problems related to large accounting business and operations management.

Guided by organizational theory, this quantitative correlational and comparative study examined the extent to which transactional, transformational, and innovation leadership style relates to business performance in the accounting business industry. The independent variables of transactional, transformational, and innovation leadership style were measured by a leadership instrument (the modified MLQ), and the dependent variable of employee performance was calculated by economic value added. The research questions addressed whether a relationship exists between transactional, transformational, and innovation leadership style and business

performance, and whether the transactional, transformational, and innovation leadership style yielded any change in each variable.

### **Research Methodology**

Because this study involved investigating relationships between leadership styles, innovation, and organizational performance, a solely qualitative methodology seemed unsuitable to fulfill the research objectives. This research strategy may be useful for gaining insight of perceived leadership in the accounting industry, but it is unable to test the defined organizational indicators for relationship.

Quantitative methodology alone would not fully answer the research questions that guided this study. A qualitative component is necessary. A mixed method research methodology was used to define leadership styles, innovation, and employee performance as variables contributing to organizational success, to hypothesize relations between these variables, and to test them.

The application of mixed method research enabled the testing of relationships between two leadership styles—innovation and employee performance—while gaining employee ideas and beliefs about the leadership experiences and efficacy for organizational performance.

### **Appropriateness of Research Design**

A mixed methods approach combines the aspects of both quantitative and qualitative research approaches, resulting in a combined approach that leverages the beneficial aspects of each while offsetting the weaknesses associated with each one individually (Brewer & Hunter, 2006). Likewise, combining quantitative and qualitative research, results in a research approach that is stronger than that of the individual approaches (Creswell, 2009; Creswell & Plano Clark, 2011). Relying on the selected mixed method, a survey was selected as the method for data collection.

Zikmund (2003) defined a survey as “a research technique in which information is gathered from a sample of people using questionnaire” (p. 66).

The survey method provides many advantages, including flexibility, usefulness, and convenience. It facilitates the collection of information from many people to provide data about the present, to learn what people are thinking, doing, and anticipating in real time, to identify typical responses, and to discover new insights (Zikmund et al., 2010). Surveys are suitable for data that are gathered from observational situations that may depend on people’s perspectives and attitudes (Zikmund, 2003). This study used a self-administered survey to assess and operationalize each of the variables at a specific point in time. Excluding the demographic questions, all questions were answered using 5-point Likert scale.

In line with the decision to use a mixed method research methodology, a survey form was developed, combining both close-ended statements and open-ended questions. The latter performed the function of the semistructured qualitative portion of the questionnaire aimed at orienting respondents in their answers.

The research design chosen was appropriate for testing the hypotheses. The relationships between the variables were determined based on collected and analyzed data (Hair, Black, Babin, & Anderson, 2010). Correlational designs help researchers to establish the extent to which variables vary or co-vary, where researchers do not manipulate an independent variable (Punch, 2003).

The mixed method of data collection for the present study was aligned with needs and goals of this research project. Specifically, the questionnaire had seven sections, with the first five measuring relationships between leadership styles, innovation, and employee performance through close-ended statements. The first section included the MLQ to identify the leadership style (transactional or

transformational) experienced by employees of accounting firms in Massachusetts. Sections 2, 3, and 4 measured employee commitment, motivation, and satisfaction suggested by previous studies as critical predictors of employee productivity and contribution to a positive organizational performance. The fifth section focused on innovation competencies and skills demonstrated by accounting managers in their leadership function.

These five sections of the questionnaire provide for exploration of relationships between leadership styles, innovation, and employee performance. All these sections contain close-ended statements; study participants indicated their response on a 5-point Likert scale. The sixth section provided a set of close-ended questions dedicated to acquiring sociodemographic data on participants. Finally, the seventh section represented the qualitative portion of this mixed method study. This section contains four open-ended questions that ask study participants to provide their views on the argument that leadership and innovation foster organizational success. While close-ended statements on the questionnaire allow for measuring and testing correlations between defined variables, the qualitative part enables participants to describe their experiences, attitudes, and perceptions to clarify the nature of organizational culture adopted in the accounting industry.

The research design for the study was determined after considering the aims and formulating a hypothesis. A survey-based design using some survey measures was employed to assess perceptions and attitudes of employees toward the variables in the study. The present study aimed to provide systematic information about the characteristics of the sample of this study; describe the frequency of each variable in the sample; and develop, evaluate, and validate deeper inferences about why each hypothesis is supported or rejected.



## Population and Sample Selection

The research purpose was to investigate the presence and extent of relationships between leadership styles, innovation, and organizational performance for a sample of participants in the accounting industry. This inquiry targeted employees to identify leadership practices adopted in the accounting industry in Massachusetts.

In this study, the target population is the employees who work in large accounting firms in Massachusetts. This study ensured that the sample was drawn from employees who work in large accounting firms in Massachusetts (i.e., the sampling frame).

In terms of the sampling method, it would be impractical and prohibitively expensive to investigate all participants in the target population. However, it is important to use a representative sample of this target population to reduce the gap between the sample and target population. Because web-based surveys provide no opportunity for application of a selection procedure (i.e., the probability of any participant being select is unknown), nonprobability judgmental sampling was used to select potential participants from the target population. The judgment of sampling method focused on selecting participants who have certain characteristics to fulfill the purpose of the study (Zikmund, 2003). One of the advantages of this sampling method is that it helps in effectively collecting a large number of required participants, which is essential for achieving the purpose of the study (Zikmund, 2003). Also, sampling method is one to the most appropriate methods when the target population is difficult to locate.

A minimum sample size of 83 participants is required to obtain a margin of error of 5% and a confidence level of 95% from the population calculated using

power analysis (Raosoft, 2004). The web-based survey consisted of a demographic data section used to collect data on participants' age, gender, and academic background. Participants were given the opportunity to type in their answers.

The population of this mixed method study was first-level managers and employees of large accounting organizations. The selected participants must be willing to take part in the study and work on the purposeful selection of large accounting business organizations in Massachusetts. The target population for this study included all first-level managers and employees at large accounting firms in Massachusetts. Data were collected from large accounting business organizations with 10 to 200 employees. A sample of not more than 120 members was carefully selected from the target population. According to Neuman (2006), a smaller group of participants, a cross-section of the greater population, allows a researcher to determine characteristics and investigate, in more detail, the phenomenon central to the research problem.

It is not sufficient . . . to assume the findings from the sample will be replicated in the rest of the population; therefore, the sample . . . needs to be carefully selected if there is to be any confidence the findings from the sample are similar to those found among the rest of the category under investigation. (Hussain, 2010, n.p.)

After defining the target population of this research project, the next task was to establish a sample selection plan. A core criterion to narrow the research focus was geographic location. This study sampled accounting firms located in Massachusetts. The next selection criterion was firm size, distinguishing between small and large accounting firms. This distinction was based on the assumption that subsidiaries of the major international corporations might enjoy higher levels of innovation and

strategic leadership than independent accounting firms provide. This study was focused on accounting personnel employed in large accounting firms of Massachusetts. In line with these selection criteria, large accounting firms were chosen to recruit study participants for this study.

Before recruitment procedures were launched, permission was obtained from the University of Phoenix Institutional Review Board to conduct the study. Random employees and first-line managers of accounting firms in Boston, Massachusetts then received emails to make them aware of the opportunity to participate in a study intended to shed light on leadership styles in accounting firms. The e-mail message contained a link to the survey, which was available via the SurveyMonkey online platform. Instructions and an informed consent statement containing an overview of the study, the processes by which participants' anonymity was ensured, and how data will be protected and utilized were presented before the survey can be accessed.

Participants received emails with a website link to the modified (with permission) MLQ, which was accessible only after participants completed the informed consent form that was presented as a gateway to the modified MLQ. Employees willing to participate were instructed to indicate their consent by completing the informed consent form and accessing and completing the questionnaire. The informed consent form explained to potential participants the nature, purpose, and significance of the study, as well as the confidential and voluntary nature of their participation. The total sample for this project was at least 100 employees assigned to nonmanagement positions in accounting firms located in Massachusetts.

## **Informed Consent**

Informing potential participants about the nature of a study, the possible risks to participation, and information about how those risks were mitigated is an important component of ethical research. The informed consent document is a written agreement between the researcher and the participant. The informed consent component of this study provided information about the nature of research, the data collection process, assurances of confidentiality, how the data were used, an explanation that participants can choose to quit the study without repercussions, and the researcher's name, e-mail address, and phone number (Bankert & Amdur, 2011; Wright, 2012). By electing to access the survey instrument, informed consent was deemed to have been provided. Submitting the completed survey represented participants' consent for their data to be utilized in the study. Participants' data collected for the purpose of analysis to answer the research questions were to be destroyed and not factored into the analysis if participants notified the researcher of their desire to be excluded from the study.

## **Confidentiality**

Christensen et al. (2011) suggested confidentiality means participants' identities and information will remain protected by the researcher and not be made available or accessible by anyone other than the researcher. Each participant of the study was informed about the protection of privacy and confidentiality of data through the informed consent process. Anonymity, confidentiality, and voluntary participation are the ethical foundations of research because they protect the research participants (Creswell, 2008; Neuman, 2005). Completed informed consents and any additional research materials will be stored in a secured cabinet to which only the researcher has access. Participants' information will be protected from release or

disclosure during and after the research process, and all e-mail and organizational data were deleted after data collection. To ensure confidentiality, survey participants were not asked to provide any information that might identify them. All data related to this study, including informed consent materials, completed surveys, and analyzed data will be stored on a password-protected encrypted external hard drive; and electronic and paper files will be permanently destroyed 3 years after the study has been completed.

### **Instrumentation**

Accounting companies are legally required to submit and publish annual reports; they constitute the instruments required for this quantitative correlation and comparative study. Two linear regressions—return on the assets ratio and the return on equity ratio—were utilized to analyze the effect on profitability on accounting companies.

The MLQ has been used extensively for research studies on leadership with both business and non-business entities and has been declared reliable and valid. The questionnaire is a self-reporting form, each question is answered using a 5-point Likert scale; 0 = *not at all* and 4 = *frequently, if not always*. The MLQ was modified (with permission) to target accounting firms. Most of the survey content relied on the MLQ (Avolio & Bass, 1991), which was designed to measure transactional and transformational leadership skills.

The MLQ is a valid and reliable research instrument widely used in leadership research. Because this research used a mixed research methodology, its findings are subject to considerations of validity and trustworthiness. Most of the survey content stemmed from the MLQ, developed by Avolio and Bass (Bass & Avolio, 2004), and were used to measure the employees' performance and leadership styles. Khalid et al.

(2012) stated that the appropriate choice of instruments is critical to the research process. Since its introduction, the MLQ has been widely used and empirically validated as a tool for leadership research. The MLQ is “the standard instrument for assessing a range of transformational, transactional, and non-leadership scales” (Loethen, 2008, p. 37). Validity and reliability of this research tool have been demonstrated, revealing its high predictability of leader performance in various organizations (Alsayed et al., 2012).

Empirically proven, the credibility of the MLQ as an instrument for leadership studies allows claiming the presence of construct validity in the present inquiry. According to theory, construct validity is achievable when the developed method and instrument of data collection comply with the pursued research objectives (Woodrow, 2014). The MLQ is used to examine leadership skills and practices, covering all domains of the two leadership styles. In particular, closed-ended statements of the questionnaire address three forms of transactional leadership, such as contingent reward, MBEA, and MBEP, with five domains of transformational leadership, notably intellectual stimulation (IS), individual consideration (IC), idealized influence attributes (IA), idealized influence behaviors (IB), and inspirational motivation ([IM] Alsayed et al., 2012).

For this study, four MLQ statements were selected for each transactional leadership (TAL) form, except for MBEP with its three measuring statements, and each transformational leadership (TFL) domain, except for idealized influence attributes. As well as the 11 TAL and 20 TFL measuring statements, three statements represented the issue of employee extra effort. As a result, Section 1 of the designed survey included 33 close-ended statements aimed at identifying the prevalence of

TAL or TFL skills and practices, as well as the frequency of extra effort taken to achieve organizational goals.

In particular, the contingent reward is addressed in Statements 1, 9, 14, and 29, such as, *Provides me with assistance in exchange for my efforts*, or *Expresses satisfaction when I meet expectations*. MBEA measurement was realized by Statements 4, 19, 21, and 23, such as, *Focuses attention on irregularities, mistakes, exceptions, and deviations from standards*, and *Keeps track of all mistakes*. MBEP was addressed in Statements 3, 10, and 15, such as, *Waits for things to go wrong before taking action*. Along with TAL reflective skills, the questionnaire contained statements addressing MFL competencies.

Statements 2, 6, 25, and 27 focused on the IS domain, such as, *Re-examines critical assumptions to question whether they are appropriate*, or *Gets me to look at problems from many different angles*. Statements 13, 17, 24, and 26 addressed the IC domain, such as *Spends time teaching and coaching*, or *Considers me as having different needs, abilities, and aspirations from others*. Statements 5, 12, 20, and 28 concerned the IB domain, such as, *Specifies the importance of having a strong sense of purpose*, and *Considers the moral and ethical consequences of decisions*. Statements 7, 11, 22, and 30 pertained to the IM domain, such as, *Talks optimistically about the future*, or *Expresses confidence that goals will be achieved*. Statements, 8, 16, 18 measured the IA domain, for example, *Goes beyond self-interest for the good of the group*. Three final statements of Section 1 (31-33) identified the presence of extra employee efforts through questions such as *Increases my willingness to try harder* (see the entire survey content in the Appendix).

Apart from distinguishing and measuring qualities of different leadership styles, the MLQ assesses employee commitment, motivation, satisfaction, and extra

effort recognized as precursors to an active employee engagement in the pursuit of organizational targets and, thus, contribution to organizational performance. Seeking to test and measure relationships between two leadership styles and organizational performance, the study incorporated several MLQ statements for employee performance. Section 2 of the survey included Statements 34, 35, and 36 that measured employee commitment, for instance, *I tell my friends this is a good firm to work in*. Section 3 assessed employee motivation through two statements, 37 and 38, such as, *Do you feel motivated in your job at the moment?* and *Do you think your job is challenging?* Section 4 addressed the issue of employee satisfaction through Statements 39 and 40, which questioned the frequency of leaders' use of satisfactory methods and work with an employee in a successful way. The first four sections of the developed survey relied on the MLQ instrument for leadership assessment.

Section 5 served to measure accounting employee's experiences of innovation in leadership. This section asked participants to rate the frequency of their exposure to leadership innovative thinking, intuitive, problem solving and decision making, abductive reasoning, forward-looking thinking, multiperspective thinking, meaning-oriented thinking, collaborative inquiry, and crafting, embraced ambiguity, and knowing the better way. Similar to previous sections, the measurement was based upon 5-point Likert scale.

Although Section 5 did not test any of the suggested relationships between organizational indicators boosting the overall organizational performance, it captured sociodemographic qualities of the sample. Five close-ended questions asked participants about gender, age, marital status, education, and experience. These data were critical to understanding the overall climate in accounting firms. The final part of the survey was qualitative, providing respondents with freedom to answer four



open-ended questions, such as, *Do you believe your firm is successful? If yes, do you attribute that to your leader's efforts?* or *Do you see evident features of innovativeness in your leader's efforts? Which ones?* The qualitative part of the survey stemmed from close-ended statements of the MLQ instrument. Therefore, except for innovation measurement, the designed survey relied on the MLQ content because of its apparent and proven validity in leadership research.

### **Validity and Reliability**

#### **Validity**

Apart from construct validity, scholars distinguish internal validity, conclusion validity, and external validity of the assessment of quantitative research findings (Rasinger, 2013). Validity is a central concern for quantitative research because it determines accuracy and relevancy of defined variables, hypothesized relationships, testing procedures, and generated conclusions.

Internal validity is accountable for logic reasoning in designing research procedures to achieve the established research objectives. This criterion requires quantitative researchers to provide a sound rationale for suggesting a cause-and-effect relationship between determined variables (Rasinger, 2013). Based on previous studies, transactional leadership, transformational leadership, and innovation were independent variables producing an effect on the dependent one—organizational performance. Because organizational performance is a broad and complex matter, the author tested it through employee performance and its drivers, such as commitment, motivation, and satisfaction. These dimensions of employee performance stemmed from prior empirical research as well. The overall scope of variables is consistent with aspects assessed by the MLQ, which proves the internal validity of this research design.

Conclusion validity implies an objective representation and interpretation of numerical results during data collection and analysis procedures (Rasinger, 2013). The instrument was developed by making modifications (with permission) to the MLQ content and innovation competencies defined by scholars. The designed survey allowed for primary data to be collected objectively, no impact of researcher bias or perception of the phenomenon produced by participants. The process of data analysis was not subject to researcher or participants' bias because most of the questions on the questionnaire are derived from the validated MLQ instrument. Using statistical software packages, the cause-and-effects relationships between variables were tested and statistical correlations between them were illustrated using graphs and tables.

External validity involves the ability to generalize research results to wider populations and different locations. Thus, it requires an illustration of the applicability of the created research design to same-subject studies involving other samples and settings (Woodrow, 2014). In the pursuit of external validity, a thorough planning of the research process was conducted and a globally appraised tool for data collection was utilized to enable replication of this research design by followers. Therefore, regarding validity criteria serving to assess the quantitative research quality, this study design illustrated the alignment of the method, instrument, and data collection and analysis procedures with research goals pursued. On these grounds, the data analysis produced generalizable conclusions for interactions between leadership, innovation, and organizational performance in the accounting industry.

While quantitative findings of the executed project must satisfy validity requirements, qualitative results follow criteria for trustworthiness that implies credibility, transferability, and dependability. The credibility requirement concerns accuracy during data collection and analysis procedures. Transferability refers to the

applicability of findings to other samples and settings, and dependability represents the overall alignment of the research process with the established aims (Pitney & Parker, 2009). The MLQ served as the foundation for both quantitative and qualitative elements of the survey questionnaire. Because the MLQ has proven validity, it is possible to claim that data collected during qualitative research part is credible and reliable. MLQ-based open-ended questions fit the overall research design and pursued goals.

### **Reliability**

According to Hammersley, reliability is one of the dimensions of validity, which indicates the reciprocal relationship between the two (as cited in Newman, 2008). In general, validity assesses the extent to which the developed research design, formulated hypotheses, or collected data measure or reflect intended goals or measurements. In this vein, reliability estimates measurement errors to help researchers assess research validity. In other words, the proven validity signifies the irrelevance of determining reliability (Newman, 2008). According to Creswell (2014), reliability is external validity, referring to the repeatability of results, which has been demonstrated. In sum, the executed study is valid and reliable.

### **Data Collection and Management**

This study focused on an accounting employee population as a target group through mixed method research. As an integral part of the research process, data collection planning required logical reasoning to align procedures with the selected research design (Mangal & Mangal, 2013). The instrument planned for use in this study was a questionnaire composed of both close-ended statements and open-ended questions to examine leadership styles practiced in the accounting industry and their effect on organizational performance in cooperation with innovation. Thus, research

strategies and goals were defined, a target population was determined, a sample selected, and appropriate research methods and tools were identified in preparation for actual data collection (Vogt, Gardner, & Haeffele, 2012). The identified participants received an e-mail message inviting them to participate in the research study, and it contained the informed consent, the description and purpose of the study, a statement that participation is voluntary, a description of the potential risks and benefits to individual participants, and participants can withdraw at any time without penalty.

Upon developing and validating the questionnaire through a peer debriefing technique and obtaining permission from the University of Phoenix Institutional Review board to conduct the study, each of the selected participants of selected accounting firms in Massachusetts received e-mail invitation messages to introduce the research purpose, goals, and expected significance of the project. Mind Garden, Inc. granted permission to use the MLQ to measure leadership styles. The survey was conducted online using SurveyMonkey, an online commercial provider of web-based survey solutions to gather data. SurveyMonkey uses enhanced Secure Socket Layer (SSL) encryption and allows researchers to create surveys and receive feedback from a target audience and the confidentiality of information is maintained. The data will be stored in online encrypted files, requires a security code for user access, and the information is password protected. At the end of the 3 years interval, the consent forms and data will be physically destroyed permanently and any data related to the study will be destroyed.

To safeguard participants' confidentiality and time commitment, the questionnaires were distributed to participants via a link in an e-mail message, asking them to provide informed consent and then complete the survey, spending a few minutes providing their response to each answer. In line with academic research

requirements and the intention to receive high response rates, the potential participants were informed regarding the purpose and importance of the planned study in the introductory part of the survey form. Also, participants learned of the voluntary and confidential nature of employee participation. Potential participants were required to affirm their informed consent before accessing the survey.

### **Data Analysis Plan and Practice**

The study investigated the relationship between employees' performance and leadership styles in large accounting firms in Massachusetts. The survey instruments that were used for the study are a modified (with permission) version of the MLQ. Data from the survey were collected online through via SurveyMonkey. Completed questionnaires provided data concerning leadership styles practiced in the accounting industry in Massachusetts, regarding innovation and employee performance. Data analysis took place in five stages. The first four stages involved quantitative data processing, and the fifth stage addressed the qualitative data. First, descriptive statistics summarized and described characteristics of the defined measurement set (Mendenhall, Beaver, & Beaver, 2012). The procedures involved organizing, synthesizing, and presenting all data obtained in a comprehensive format.

Descriptive statistics results yielded figures for mean, median, and standard deviation, enabling further frequency analysis to determine the distribution of responses on each domain. Frequency distribution illustrated the number of times a certain characteristic is present in the sample. The observed frequencies served to describe sociodemographic characteristics of the sample with typical leadership practices, employee performance indicators, and innovation competencies reported by the sample. Frequency analysis was based on descriptive statistics calculated during

the first stage of the analysis process--data organization--following data coding and entry (Dantzker & Hunter, 2006).

Descriptive and inferential statistical tests were performed on the responses to the questions in the quantitative portion of the study on the key leadership dimensions, transactional and transformational leadership indicators, as well as employee performance, and transactional leadership characteristics of their leaders.

**Descriptive statistics for leaders' transformational leadership behaviors' assessment.**

The next portion of descriptive statistics relates to evaluation of leaders' innovation traits and behaviors. Descriptive statistics were performed among employee performance with a focus on extra effort, commitment, motivation, and satisfaction of employees. Descriptive and inferential statistical tests were performed on the responses to the questions in the quantitative portion of the study, while thematic analysis was conducted on the responses to the open-ended questions in the qualitative phase. The next step was to complete descriptive and the inferential statistics procedures aimed at making inferences about leadership characteristics, employee performance, and innovation.

Inferential statistics lay the foundations for correlation analysis and conclusion drawing with regard to the existence and extent of relationships between different organizational indicators (Mendenhall et al., 2012). Hence, using various statistical software packages, the researcher produced descriptive statistics to show characteristic frequency distribution, and inferential statistics to measure the association between leadership styles and organizational performance, leadership and innovation, and innovation leadership and employee performance.

The third analytical stage concerned qualitative data collected via the four open-ended questions in the final part of the questionnaire. In line with qualitative analysis requirements, all data were coded and then the phrases were segmented into informational blocks. This process allowed the categorization of the qualitative data according to common themes or to distinguish similarities and differences. By bringing together those generalizations, the analysis can produce meaning for each research inquiry (Saldana, 2013). These three-step analytical processes allowed for thorough data processing and ensure the credibility of findings.

An assessment of normality of the data for the inferential statistical analysis in this study and the quantitative tools to analyze data and make observations was performed using IBM SPSS, Version 24. Numerical methods provided objective ways of examining normality. Because the study population was expected to be less than 150, the Shapiro-Wilk test for normality was performed. Originally valid for the sample size of between 3 and 50, the Shapiro-Wilk test for normality was later extended to between 7 and 2000 (Royston, 1982). The statistic is positive and less than or equal to 1. In this circumstance, if the significance value is greater than .05, then the data were deemed normal.

### **Ethical Considerations**

The current research followed ethical guidelines for conducting human behavior studies. The survey instrument relied mostly on the content of the MLQ, developed and empirically validated by many studies. The reference to the globally appreciated research tool ensured ethical compliance of the survey questionnaire with academic standards. The University of Phoenix Institutional Review Board gave approval to conduct this study before approaching any participants of accounting firms in Massachusetts. At that time, participants of large accounting firms were

contacted via e-mail to introduce the research purpose, the data collection and analysis procedures, and the importance of the study. The email underscored the voluntary and confidential nature of employees' participation in the study during employees' free time to ensure employees are not distracted from their professional responsibilities and duties. With approval from the university participants received e-mailed information about the study and survey to firm employees occupying nonmanagement positions.

Informed consent was sought from potential participants upon accessing the link to the survey on SurveyMonkey, which was sent to 150 nonmanagement employees of large accounting firms in Massachusetts. The informed consent form served as a gateway to the survey. Potential participants needed to affirm informed consent to access the survey. The informed consent form communicated to potential participants the purpose and goals of the study, as well as their expected contribution to discovering relationships between leadership styles, innovation, and organizational performance in the large accounting business. Data collection procedures were explained, as was the voluntary nature of participation. Measures to ensure confidentiality were explained. Participants were notified of their right to opt out of the study at any time, and of their right not to feel coerced to answer specific survey questions; completing and submitting the surveys signified consent to be involved in the research.

When requesting permission to contact firm employees, respondents were specifically asked for e-mail addresses only. No personal information or other contact data were requested to ensure confidentiality of study participants. All collected data is maintained in a password-protected folder on a personal laptop accessible only by the researcher.



## **Limitations and Delimitations**

While planning to execute the study, potential limitations and bias that might reduce the credibility of findings were considered. Because limitations are present in both the quantitative and qualitative approaches, a mixed method study was selected. While being advantageous for a quick examination of particular variables, quantitative research lacks insight into personal experiences, perceptions, and ideas of potential study participants (Creswell, 2014). In its turn, qualitative research enables an in-depth investigation of a phenomenon, but it produces subjective and descriptive findings (Merriam & Tisdell, 2015).

Hence, survey research based on mixed research methodology was conducted to limit disadvantages of both frameworks. As a result, leadership practices adopted in the accounting industry were examined through factual evidence and the employees' reported perceptions. The selected research methodology eliminates most potential methodological limitations, while the MQL-based instrument ensures validity and reliability of the research process and results. The sample of accounting employees was representative of the population of accountants occupying nonmanagement positions in large accounting firms in Massachusetts. Therefore, results of the executed research were credible and illustrative for the given location and large accounting business sector.

## **Summary**

This chapter included a discussion of the methodology proposed for this study. Included were a restatement of the research problem, the research questions, and hypotheses. The rationale for the research methodology and developed research design were addressed. The sample population and strategy for sample selection were discussed. The process by which the data collection instrument was developed was

explained to demonstrate its validity and reliability. Finally, data collection and analysis procedures were outlined.

## Chapter 4

### Results

The present chapter is dedicated to the analysis of findings from surveying large accounting firms in Massachusetts on the subjects of leadership style, innovation, and employee performance. The chapter begins with a restatement of the research objectives, research questions, and hypotheses, and a presentation of the sociodemographic details of the sample. Next are descriptive statistics of the survey, including frequency analyses for each of the dimensions of leadership assessment, employee performance dimensions, and innovation for leaders of the firms. Following the thorough examination of descriptive statistics for the sample is a discussion of the inferential statistics used to test the formulated hypotheses. There is a separate section for analysis of each hypothesis that was tested quantitatively. Next is a discussion of the fifth hypothesis, which was analyzed qualitatively, based on employees' responses to open-ended questions about employees' perceptions of the relationship between leadership, innovation, and overall organizational success. The chapter concludes with a summary of the findings.

#### **Research Objectives, Questions, and Hypotheses**

Previous research indicated a well-established link between leadership style and organizational performance, as well as between innovation efforts, actions, and organizational success. This study expanded on previous research with a focus on the ways in which the specific styles of transactional and transformational leadership, coupled with innovation efforts, correlate with employee performance. Employees are strategically important human capital in an organization; their commitment and motivation to their work have a strong impact on organizational performance. Hence, understanding the ways in which these organizational indicators interrelate is an

important dimension of leadership research. The following questions drove this study:

1. What, if any, relationship exists between the transactional leadership style and employee performance in large accounting firms in Massachusetts?
2. What, if any, relationship exists between the transformational leadership style and employee performance in large accounting firms in Massachusetts?
3. What, if any, relationship exists between transactional/transformational leadership styles and innovation in large accounting firms in Massachusetts?
4. What, if any, relationship exists between leaders' innovation skills and employee performance in large accounting firms in Massachusetts?
5. What is the perceived relationship of transformational leadership, transactional leadership, and innovation to overall organizational success in large accounting firms in Massachusetts?

### **Research Hypotheses**

The primary focus of this study was to examine the relationship between leadership and organizational success. This focus was explored by distinguishing different types leadership and innovation strategies in large accounting businesses. Innovation involves being conscientious. Although implementing innovation sounds like an easy process, many organizations are not innovative. The research questions in this study were constructed to be answered mainly using a quantitative methodology, with the exception of Hypothesis 5, which was determined by qualitative data. The null and alternative hypotheses directed the purpose of this quantitative study.

Research hypothesis ( $H_A$ ): Leadership and innovation affect the organizational success.

Null hypothesis ( $H_0$ ): Leadership and innovation have no effect on organizational success.

In searching for answers to the research questions, this study tested the following hypotheses:

H1<sub>A</sub>: There is a statistically significant relationship between transactional leadership style and employee performance in large accounting firms in Massachusetts.

H1<sub>0</sub>: There is no relationship between transactional leadership style and employee performance in large accounting firms in Massachusetts.

H2<sub>A</sub>: There is a statistically significant relationship between transformational leadership style and employee performance in large accounting firms in Massachusetts.

H2<sub>0</sub>: There is no relationship between transformational leadership style and employee performance in large accounting firms in Massachusetts.

H3<sub>A</sub>: There is a statistically significant relationship between transactional/transformational leadership styles and innovation in large accounting firms in Massachusetts.

H3<sub>0</sub>: There is no relationship between transactional/transformational leadership styles and innovation in large accounting firms in Massachusetts.

H4<sub>A</sub>: Innovation skills and competencies of leaders have a statistically significant relationship to employee performance in large accounting firms in Massachusetts.

H4<sub>0</sub>: Innovation skills and competencies of leaders have no relationship to employee performance in large accounting firms in Massachusetts.

H5<sub>A</sub>: Employees of large accounting firms in Massachusetts perceive a strong relationship between transformational leadership traits, transactional leadership traits, innovation, and overall organizational success.

H5<sub>0</sub>: Employees of large accounting firms in Massachusetts do not perceive any relationship between transformational leadership traits, transactional leadership traits, innovation, and overall organizational success.

### **Sociodemographic Data of the Sample**

The sample included 82 employees from large accounting firms in Massachusetts. This section includes a review of the sociodemographic of the sample of surveyed employees of those accounting firms. It is important to explore the demographic features of the sample to establish a framework for the sample.

Sociodemographic of interest in this study were gender, age distribution, educational level, marital status, and years of work experience. Details of the sociodemographic data for the sample are presented in Table 1.

Table 1

*Sociodemographic Data of the Sample*

Variable	Category	<i>f</i>	<i>M</i>	<i>SD</i>
Gender	Male	39 (47.6%)	1.52	.50
	Female	43 (52.4%)		
Age (years)	< 20 years	4 (4.9%)	2.98	.99
	21–29	24 (29.3%)		
	30–39	29 (35.4%)		
	40–49	20 (24.4%)		
	≥ 50	5 (6.1%)		
Marital status	Single	20 (24.4%)	2.01	.73
	Married	42 (51.2%)		
	Divorced/separated	19 (23.25%)		
	Widow/widower	1 (1.2%)		
Highest education achieved	High school	2 (2.4%)	2.99	.90
	Associate's degree	23 (28%)		
	Bachelor's degree	35 (42.7%)		
	Master's degree	18 (22%)		
	Doctorate	4 (4.9%)		
Work experience at the firm (years)	< 1	5 (6.1%)	2.55	.76
	1–3	34 (41.5%)		
	4–7	37 (45.1%)		
	8–10	5 (6.1%)		
	≥ 11	1 (1.2%)		

As shown in Table 1, the sample was nearly equally distributed between genders (men, 47.6%; women, 52.4%). In terms of age distribution, the most populated category was individuals 30–39 years old (29 respondents, or 35.4% of the sample). However, the categories of employees 20–29 years old and 40–49 years old were also almost as large, (24.5% and 24.4% of the sample, respectively). Few employees in the sample were younger than 20 years old or older than 50 years old (4.9% and 6.1% of the sample, respectively). The majority of the sample (42 participants, or 51.2%) reported being married. Twenty participants (24.4%) reported being single, 19 participants (23.2%) reported being divorced or separated. Only one participant (1.2%) reported being a widow or widower.

As for highest educational status completed, the overwhelming majority of participants reported having earned a bachelor's degree (35 individuals, or 42.7%), while 18 persons (22%) reported having earned a master's degree. Two participants reported having completed only a high school diploma (2.4%), which suggests these individuals might be participating in internships in the firm and while continuing their education. An associate's degree was the highest level of education completed by 23 participants (28% of the sample), while four participants (4.9% of the sample) had completed a doctorate.

Professional experience was distributed mostly among those with 1–3 years of work experience at the firm (34 persons, 41.5%) and those with 4–7 years of work experience at the firm (37 persons, or 45.1%). Only five of the 82 participants surveyed reported working for less than 1 year in the firm, and only one person reported working at the firm for at least 11 years. Five participants (6%) had worked for 8–10 years at the firm.

### **Descriptive Statistics: Transactional Leadership Indicators**

This section includes a discussion of the descriptive statistics of the key leadership dimensions investigated as part of this study. The MLQ used for this study relates to transactional and transformational leadership indicators, as well as employee performance. This section presents the descriptive data of ratings employees gave regarding their leaders' transactional leadership characteristics. The key descriptive indicators of transactional leadership and their descriptive statistics are shown in Table 2.



Table 2

*Transactional Leadership Descriptive Statistics*

	Items	<i>M</i>	Median	<i>SD</i>
CR1	Provides me with assistance in exchange for my efforts	2.98	3.00	1.01
CR2	Discusses in specific terms who is responsible for achieving performance targets	3.35	3.00	.67
CR3	Makes clear what one can expect to receive when performance goals are achieved	3.21	3.00	.80
CR4	Expresses satisfaction when I meet expectations	3.07	3.00	.87
MBEA1	Focuses attention on irregularities, mistakes, exceptions, and deviations from standards	2.90	3.00	.80
MBEA2	Concentrates his or her full attention on dealing with mistakes, complaints, and failures	3.16	3.00	.82
MBEA3	Keeps track of all mistakes	3.26	3.00	.70
MBEA4	Directs my attention toward failures to meet standards	3.00	3.00	.93
MBEP1	Fails to interfere until problems become serious	1.28	1.00	.91
MBEP2	Waits for things to go wrong before taking action	1.79	2.00	.99
MBEP3	Shows that he or she is a firm believer in "if it ain't broke, don't fix it"	1.37	1.00	.90

As shown in Table 2, the majority of responses for contingent rewards and management by exception (active) were highly positive. The question about assistance in exchange for employee efforts yielded the lowest mean of 2.98, while all other indicators for contingent rewards had a mean of 3 or greater, suggesting that the overwhelming majority of respondents gave answers of either most of the time or always. The highest mean of 3.35 was recorded for clarification of staff responsibilities on achievement of key targets, which suggests that leaders of surveyed firms are scrupulous regarding distribution of responsibilities, accountability for efforts, and monitoring completion of tasks.

The means of management by exception (active) were lower but still higher than 3.00, suggesting that this aspect of transactional leadership was present and recognized by the majority of those surveyed. As for management by exception (passive), which is a dysfunctional, avoidant style of leadership, few participants

reported it being present in their organization. Means varied from 1.28 to 1.79, with medians equaling 1.00 for two aspects and 2.00 for the third aspect. These results suggest the majority of survey participants answered never or once in a while to questions about their leaders exhibiting avoidant behaviors. The following sections provide more detail on each of the aspects of transactional leadership.

### Contingent Rewards (CR)

Transactional leadership style exemplifies the cost-benefit economic exchange between a leader and his or her followers. When the leader’s dominant style is transactional, followers’ material and psychological needs are met only in return for accomplishing their assigned work targets and meeting the expectations of work performance. Thus, contingent rewards are at the core of transactional leadership—all work-related rewards are tied to performance, and all employees know what they need to do to be rewarded. In this study, contingent rewards were reported as commonplace behavior by the majority of participants (see Figure 1).

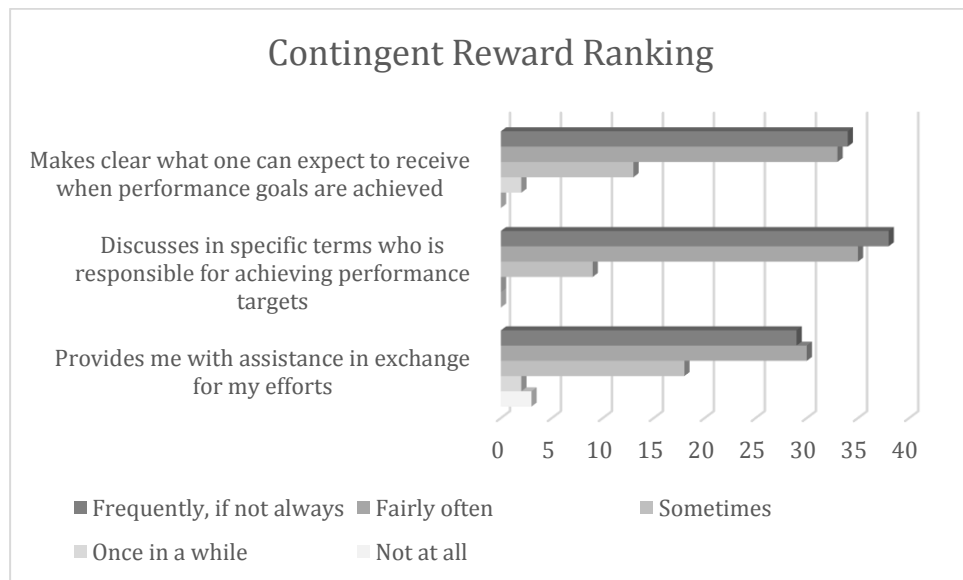


Figure 1. Contingent reward descriptive statistics for transactional leadership.

As indicated by the data, leaders of accounting firms whose employees were surveyed are successful in setting specific targets for employee performance and arranging the work process so that everyone knows what is expected for receiving rewards and assistance in return for successfully accomplishing tasks. Only a few employees stated that they did not receive assistance from their leaders in exchange from their effort, and a couple of the participants confided that their leader did not clarify the nature of rewards they might expect to receive upon completing their targets. However, these opinions constituted only small percentage of the survey, so it is reasonable to interpret from the results that only a leader of one or two surveyed firms failed to provide efficient contingent rewards to staff.

### **Active Management by Exception**

Active management by exception (MBEA) is another hallmark of transactional leadership and includes a focus on error tracking and correction. This behavior is closely connected with mistake avoidance and corrective action in cases when failures take place and when work performance falls below an accepted level. Participants in this study were asked to assess their leaders' ability to engage in MBEA to a high degree. The majority of participants reported being satisfied with their leaders' ability to detect and correct mistakes in a timely manner and steer their work away from the risk of failure (see Figure 2).

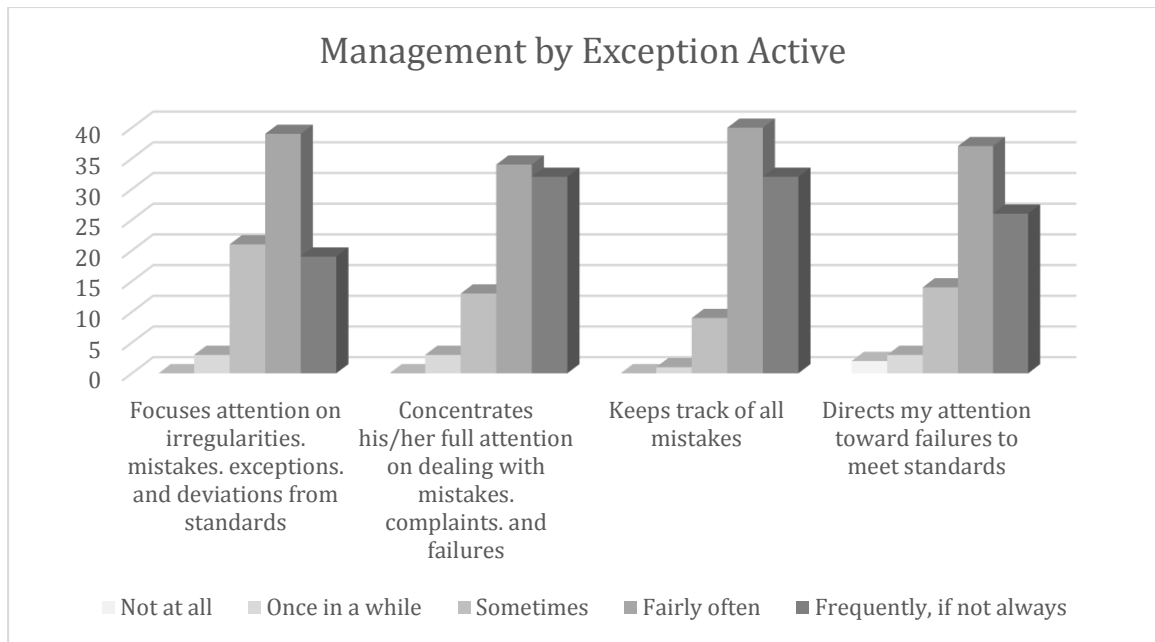


Figure 2. Active management by exception for transactional leadership.

As shown in the frequency statistics presented in Figure 2, the response most frequently provided by surveyed staff was fairly often, which does not suggest perfect performance, but still implies a satisfactory level of MBEA behavior by most leaders. The most widely reported behaviors were leaders' full attention on mistakes and complaints, as well as keeping track of all mistakes, and most participants indicated these behaviors were demonstrated frequently, if not always. A persistent focus on irregularities and deviations from standards received the lowest ranking, which suggests the need for leaders to focus on this component of MBEA to maintain a high-quality level of work performance.

### Passive Management by Exception (MBEP)

While transactional leaders are mostly characterized by a transparent cost-benefit approach to managing employee relationships, they might still exhibit avoidant management styles some of the time. Passive management by exception (MBEP) is a common characteristic of avoidant leaders and is associated with

counterproductive, delayed responses to organizational problems. Passive and avoidant leaders are more focused on failures and mistakes than on motivating staff for success and achievement; hence, their leadership styles traditionally have adverse consequences for staff's work performance. Instances of MBEP behavior were reported only as rare and occasional by study participants (see Figure 3):

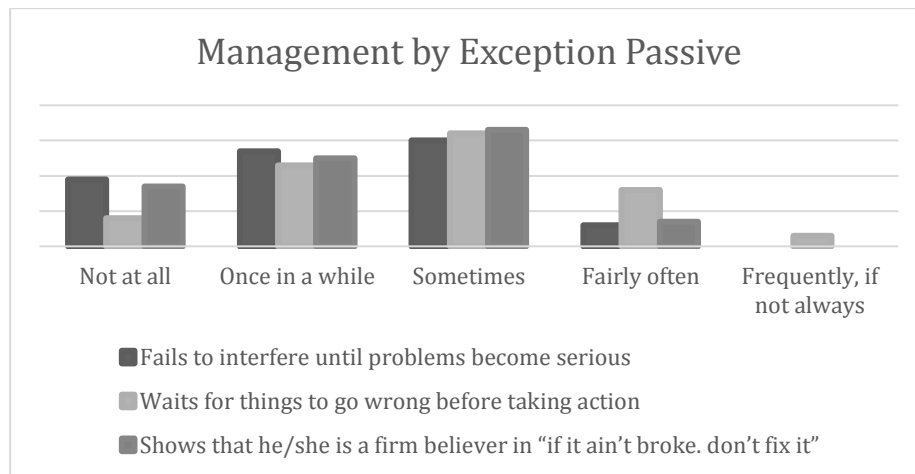


Figure 3. Passive management by exception for transactional leadership.

Less than half (35%) of employees reported their leaders exhibited the three MBEP behaviors often or frequently, if not always. Of concern is the number of reports of leaders exhibiting these behaviors sometimes, which makes the image of avoidant leadership vague. The most frequently chosen answer for all three aspects of MBEP behavior was sometimes, which makes it impossible to identify whether these behaviors are common or only occasionally performed. Hence, this issue warrants further investigation.

### Descriptive Statistics for Transformational Leadership

Having completed the discussion of transactional leadership style behaviors in the previous section, the section addresses transformational leadership style behaviors. Behaviors associated with transformational leadership include intellectual stimulation of employees, individual consideration of each employee, idealized

influence behaviors and attributes, and inspirational motivation of employees to boost performance and improve work commitment and satisfaction. Descriptive statistics for reports of leaders' transformational leadership behaviors are provided in Table 3.

Table 3

*Transformation Leadership Descriptive Statistics*

Item		<i>M</i>	Median	<i>SD</i>	Min.	Max.
IS1	Re-examines critical assumptions to question whether they are appropriate	2.98	3.00	.99	0	4
IS2	Seeks differing perspectives when solving problems	3.04	3.00	.91	0	4
IS3	Gets me to look at problems from many different angles	3.06	3.00	.85	0	4
IS4	Suggests new ways of looking at how to complete assignments	3.05	3.00	.80	1	4
IC1	Spends time teaching and coaching	3.30	4.00	.84	1	4
IC2	Treats me as an individual rather than just a member of the group	3.27	3.00	.75	1	4
IC3	Considers me as having different needs, abilities, and aspirations from others	3.05	3.00	.82	1	4
IC4	Helps me develop my strengths	3.20	3.00	.81	0	4
IB1	Talks about his or her most important values and beliefs	3.11	3.00	.82	1	4
IB2	Specifies the importance of having a strong sense of purpose	3.32	3.00	.78	1	4
IB3	Considers the moral and ethical consequences of decisions	3.15	3.00	.69	1	4
IB4	Emphasizes the importance of having a collective sense of mission	3.13	3.00	.68	2	4
IM1	Talks optimistically about the future	3.11	3.00	.88	0	4
IM2	Talks enthusiastically about what needs to be accomplished	3.40	3.50	.66	2	4
IM3	Articulates a compelling vision for the future	3.20	3.00	.76	1	4
IM4	Expresses confidence that the goals will be achieved	3.27	3.00	.70	2	4
IA1	Instills pride in me for being associated with him or her	3.17	3.00	.84	0	4
IA2	Goes beyond self-interest for the good of the group	3.27	3.00	.82	0	4
IA3	Acts in ways that build my respect	3.20	3.00	.78	1	4

Overall, the ranking for transformational leadership attributes were high among representatives of large accounting firms in Massachusetts; the majority of employees had high praise for their leaders' ability to employ transformational leadership. The lowest median of responses for all transformational attributes was 3.00, indicating that more than 50% of participants answered the questions as fairly often and frequently, if not always. The question about the leader's allocation of time for teaching and coaching had the median of 4.00, indicating the overwhelming majority selected the highest ranking of that behavior for their leader. Nevertheless, this question revealed the mean of 3.30, which implies a sharp distribution of responses among respondents; the answers were polarized. While the employees of some firms rated that behavior highly because their leaders spend time teaching and coaching, others ranked that behavior as low because their leaders do not exhibit those behaviors at all. Details on the frequencies of responses on each of the leadership aspects are examined in the following sections.

### **Intellectual Stimulation (IS)**

Intellectual stimulation is the effort a leader makes to urge followers to question their traditional ways of problem solving, decision making, and task accomplishment. Encouragement to improve current practices and stimulus to innovate and be creative at work are indicators of intellectual stimulation. Rankings of leadership behaviors related to this aspect of transformational leadership are presented in Figure 4.

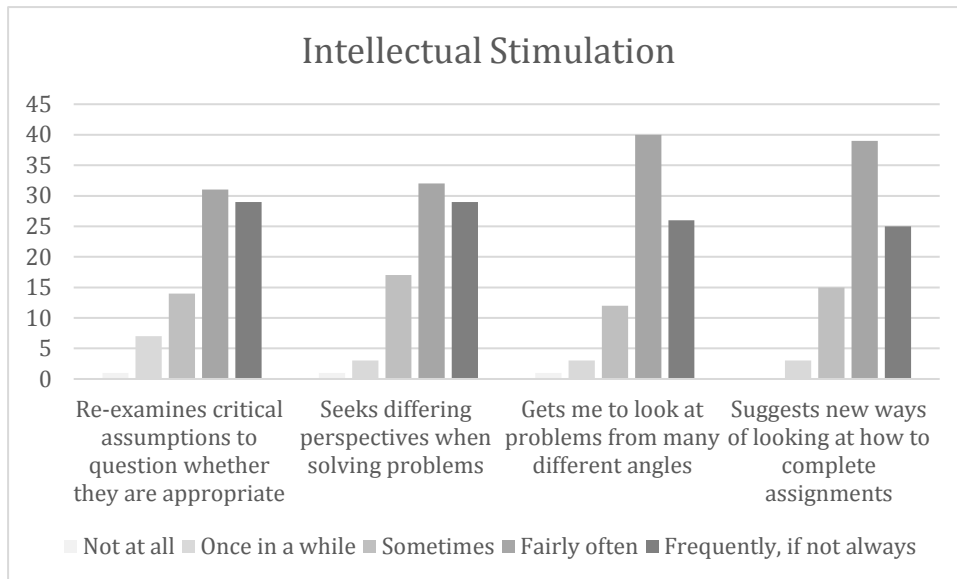


Figure 4. Frequency analysis of intellectual stimulation behaviors for transformational leadership.

As shown in Figure 4, intellectual stimulation was ranked fairly high, but not extremely high for the leaders of Massachusetts’ accounting firms. Re-examining and questioning assumptions received the greatest number of low rankings of all the questions, although the responses were particularly varied, compared to other behaviors related to intellectual stimulation. Of the 82 participants, 67% answered sometimes to all four questions, suggesting the behavior of interest was exhibited occasionally and was not a commonplace practice in the firm. Urging employees to look at problems from different angles and looking for innovative ways of resolving a problem garnered more responses of fairly often and fewer responses of frequently, if not always than other questions, which suggests that these behaviors are practiced much less frequently than employees desired.

#### Individual Consideration (IC)

Individual consideration is an aspect of transformational leaders’ focus on the needs and experiences of their followers. The higher the IC dimension is in the



leader's profile, the more he or she dedicates time to coaching and developing employees, cares for the feelings of employees, and provides opportunities for personal and professional growth through delegating of tasks and responsibilities. Results of frequency analysis for IC traits of leaders in the surveyed firms are presented in Figure 5.

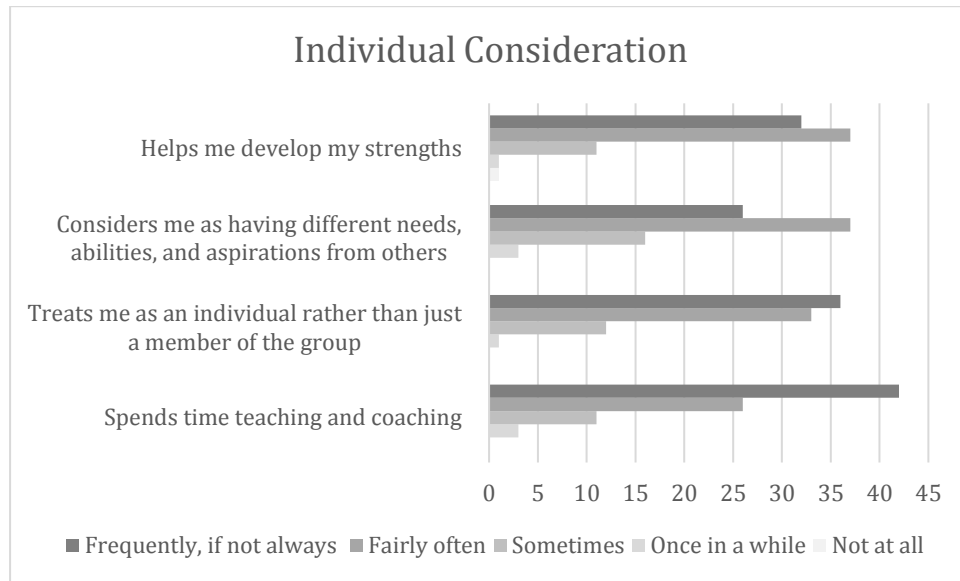


Figure 5. Frequency analysis of IC traits of leaders for transformational leadership.

### **Idealized Influence Behaviors (IB)**

The dimension of idealized influence in leader's behaviors is a feature of transformational leadership that relates to a leader's demonstration of value-driven, visionary attitudes to workplace performance. Leaders with strong idealized influenced behaviors usually act as lifelong learners and agents of change, and they instill those behaviors in their employees. Ranking frequencies for four core dimensions of idealized influenced behaviors of transformational leadership are presented in Figure 6.

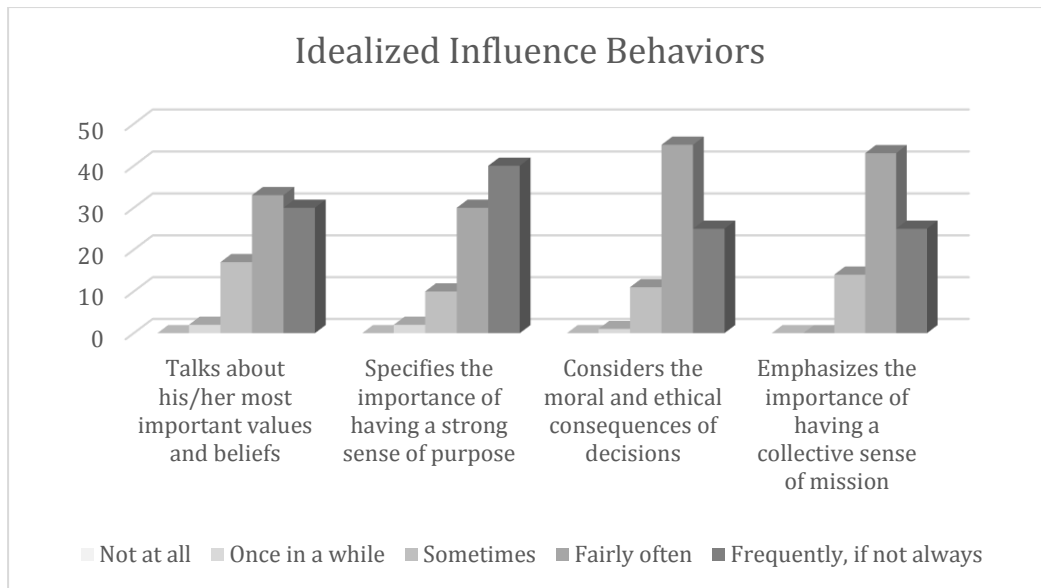


Figure 6. Frequency analysis of IB features of leaders for transformational leadership.

The behavior that earned the highest ranking was *specifies of importance of having a strong sense of purpose* (see Figure 6); nearly 40% of survey participants—the largest number responding to this question—reported this leadership trait was constantly present in their leaders’ behaviors and nearly 30% reported this trait was present *fairly often*. The behaviors reflected as considers moral and ethical consequences of decisions and emphasizes the importance of having a collective sense of mission received more fairly often responses, and almost no one reported their leaders never do this. Based on the distribution of responses, these traits are occasionally present in leaders of the surveyed firms; there are almost no firms whose employees do not witness those leadership behaviors at least sometimes. Finally, the behavior of talking about most important values and beliefs was reported almost equally between fairly often and frequently, indicating a strong although inconsistent focus on this aspect of idealized influence behavior.

## Inspirational Motivation (IM)

The ability to successfully provide inspirational motivation allows transformational leaders to articulate the vision of the organization, inspire subordinates to accomplish organizational goals, and raise workplace motivation and commitment through optimistic, enthusiastic performance, and interaction with employees. Rankings of inspirational motivation attributes among leaders in the surveyed accounting firms are presented in Figure 7.

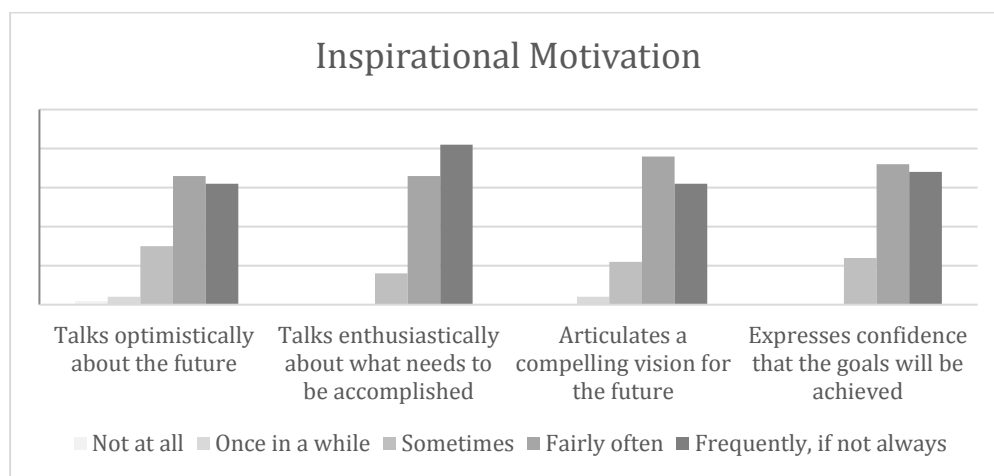


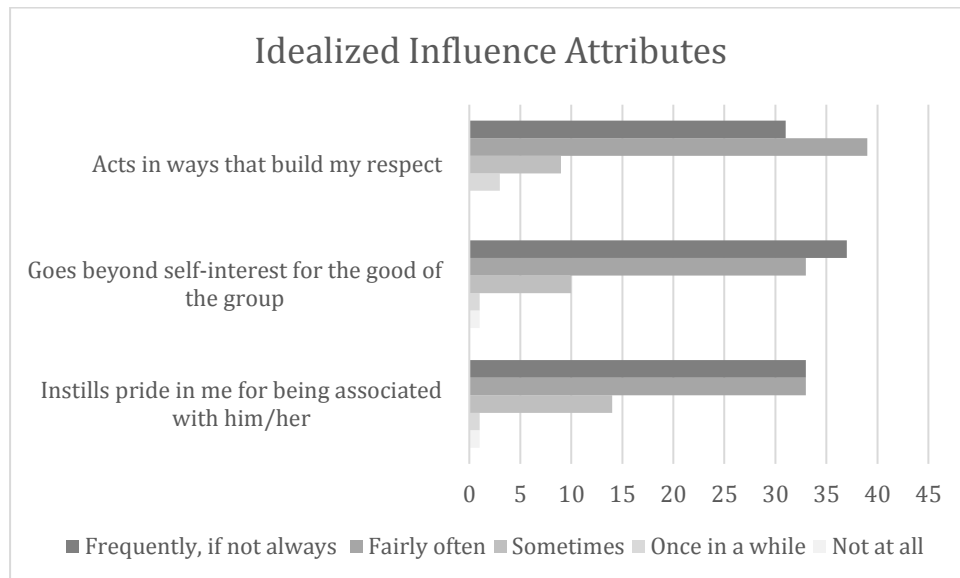
Figure 7. Inspirational motivation frequency analysis for transformational leadership.

As shown in Figure 7, inspirational motivation traits were rated highly by survey participants; the overwhelming majority (89%) of answers indicated leaders engage in IM features and behaviors fairly often and frequently, if not always. The majority of survey participants reported leaders engaged in enthusiastic discussion of what needs to be accomplished, which is a strong motivational factor for boosting employee performance. A slightly lower ranking was attributed to articulation of compelling vision for the future and expression of confidence that goals will be achieved; larger numbers of respondents reported their leaders engaged in this behavior fairly often. Few survey participants reported their leaders never or rarely displayed these behaviors, which suggests leaders of the firms whose employees

participated in this study promoted individual motivation as a matter of targeted, focused attention and these leaders made an effort to demonstrate those behaviors in the workplace.

### **Idealized Influence Attributes (IA)**

Leaders’ idealized influence attributes have a strong effect on employee performance; employees of leaders who demonstrate idealized influence attributes develop a powerful sense of self-identification with the leader as a strong role model with rigid morality. The leaders’ positive image is established through leaders’ efforts to demonstrate social responsibility, ethics, and morality, all of which are strong contributors to organizational safety. Rankings of descriptive statistics for idealized influence provided by surveyed employees are provided in Figure 4.8.



*Figure 8.* Frequency analysis for IA features of leaders for transformational leadership.

As shown in Figure 8, the overall ranking of all three studied IA behaviors is high, with an equal number of participants noting their leader instills pride in them for

being associated with him or her fairly often and frequently, if not always. The largest number of frequently, if not always rankings in the group of idealized influence attributes was recorded for the leader who goes beyond self-interest for the good of the group. Despite the generally positive rankings, several employees reported that their leaders never go beyond self-interest and never instill pride in them, which suggests that in at least one surveyed firm, the leader does not demonstrate the attributes of idealized influence. Forty-three percent of participants asserted their leader *only sometimes instills pride in them for being associated with him or her and goes beyond self-interest for the good of the group*. By contrast, the question about *acting in ways that build employees' respect* collected the largest number of responses of once in a while, indicating that at least in some of the firms whose employees were surveyed, leaders' idealized influence attributes are rather weak.

### **Descriptive Statistics on Innovation Leadership Features**

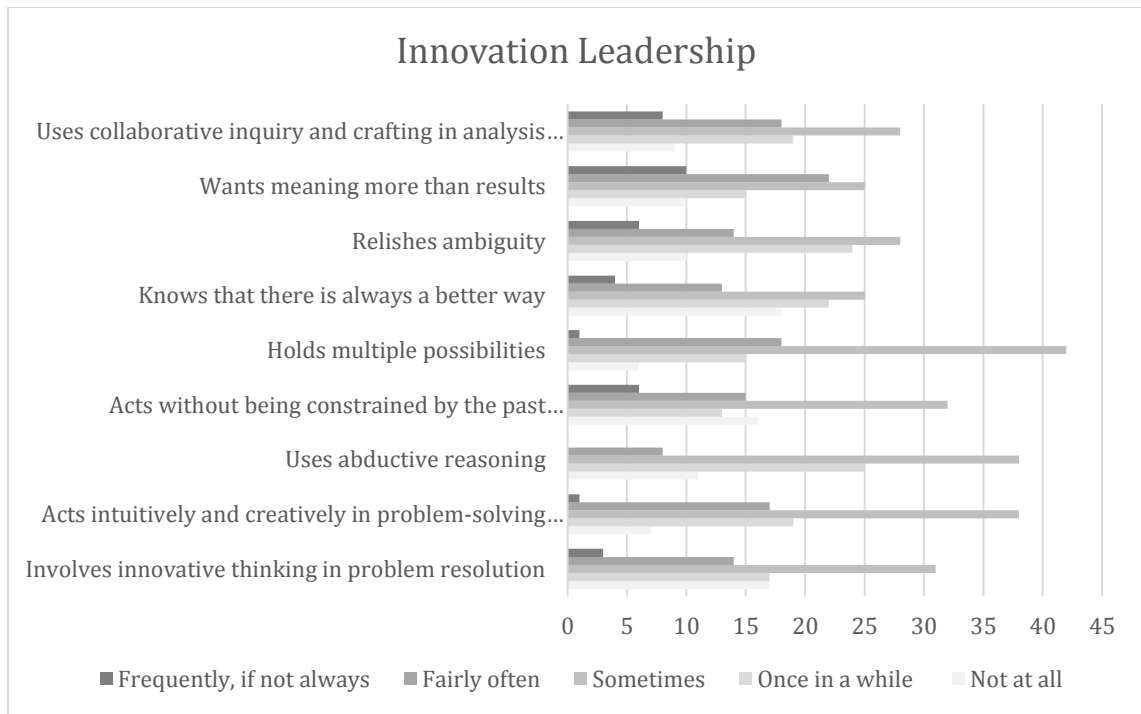
This part of the chapter addresses the descriptive statistics related to leaders' innovation traits and behaviors. In one section of the survey, study participants were asked to rank their leaders' innovative leadership behaviors such as application of innovative thinking, intuitive and creative problem solving, use of abductive reasoning, forward-thinking approach, search for better ways, and acceptance of ambiguity. Other issues of inquiry relate to searching for meaning more than results and the use of collaborative inquiry and crafting in analysis of business thinking. Descriptive statistics related to innovative leadership traits and behaviors are reported in Table 4

Table 4

*Descriptive Statistics on Innovation Leadership Assessments*

	Items	<i>M</i>	Median	<i>SD</i>	Min.	Max.
INN1	Involves innovative thinking in problem resolution	1.62	2.00	1.11	1	4
INN2	Acts intuitively and creatively in problem solving and decision making	1.83	2.00	.90	1	4
INN3	Uses abductive reasoning	1.52	2.00	.85	2	4
INN4	Acts without being constrained by the past (forward-thinking)	1.78	2.00	1.18	2	4
INN5	Holds multiple possibilities	1.91	2.00	.86	2	4
INN6	Knows that there is always a better way	1.55	2.00	1.15	1	4
INN7	Relishes ambiguity	1.78	2.00	1.10	1	4
INN8	Wants meaning more than results	2.09	2.00	1.20	0	4
INN9	Uses collaborative inquiry and crafting in analysis of business thinking	1.96	2.00	1.14	1	4

As shown in Table 4, the means for innovation are much lower than the indicators for transactional and transformational leadership. In this way, the leaders' behavior was reflected in the highest mean of 2.09 for a focus on meaning more than on results. The lowest scores were recorded for use of abductive reasoning ( $M = 1.52$ ) and knowing there is always a better way ( $M = 1.55$ ). Innovative thinking was another low-scored indicator ( $M = 1.62$ ), which suggests that employees either do not know what the traits of innovation are and how they are manifested in their leaders' workplace performance or they do not see those behaviors and approaches in their leaders' behavior. More detailed examination of responses on innovativeness is presented in the frequency analysis graph (see Figure 9).



*Figure 9.* Frequency analysis of innovative leadership rankings.

As shown in Figure 9, study participants' most negative assessment was provided for knowing there is always a better way (18 participants stated that their leaders never demonstrate that trait), innovative thinking (17 participants chose the answer of not at all) and acting in a forward-looking way (16 participants indicated they never witnessed that behavior in their leaders). Only three participants noted stated their leaders always demonstrate innovative thinking. One participant indicated his or her leader acts intuitively and creatively. None of the participants reported their leaders demonstrated constant use of abductive reasoning. In all cases, the most frequently chosen answer was sometimes; approximately one-half of the sample indicated their leaders sometimes demonstrate certain behaviors. Based on these results, the degree to which leaders practice innovation is poor to moderate in most of the surveyed accounting firms, while several firms might still have high levels of innovation implementation and acceptance among both leaders and staff.

## Descriptive Statistics on Employee Performance

Among employee performance dimensions tested with the MLQ, the focus of the study was on extra effort, commitment, motivation, and satisfaction of employees. These features are believed to be directly linked with the quality and style of leadership employees experience in the workplace. Hence, it was hypothesized that these aspects of employee performance are illustrative in terms of leaders' efficiency in accomplishing their leadership functions and responsibilities. Descriptive statistics on the named aspects of employee performance are presented in Table 5.

Table 5

### *Descriptive Statistics on Employee Performance*

	Items	<i>M</i>	Median	<i>SD</i>	Min.	Max.
EE1	Gets me to do more than I am expected to do	2.68	3.00	.80	0	4
EE2	Heightens my desire to succeed	2.52	3.00	.86	0	4
EE3	Increases my willingness to try harder	2.40	2.00	.77	1	4
COM1	I tell my friends that this is a good firm to work in	3.04	3.00	.78	1	4
COM2	My values correspond to my firm's values	3.21	3.00	.83	0	4
COM3	This firm inspires me to do my best when I am at work	3.26	3.00	.73	1	4
MOT1	Do you feel motivated in your job at the moment?	2.84	3.00	.88	1	4
MOT2	Do you think your job is challenging?	3.29	3.00	.64	2	4
SAT1	Uses methods of leadership that are satisfying	2.98	3.00	.89	0	4
SAT2	Works with me in a satisfactory way	3.02	3.00	.75	1	4

As shown in Table 5, the lowest scores are associated with the extra effort criteria of organizational performance; the mean for the leader's ability to increase employees' willingness to try harder is 2.40, while the increase of desire to succeed



has a mean of 2.52. These scores reflect the moderate relationship between the leaders' behavior and the employees' extra effort in the workplace—the leaders did not demonstrate a high degree of this behavior, but also not a low degree. The highest scores are associated with commitment: leaders' inspiration to do one's best had a mean of 3.26, and correspondence between employees' values and those of the firm had a mean of 3.21. Both of these results are positive, indicating that employee commitment is fairly high in most of surveyed workplaces. Motivation ( $M = 2.98$ ) and challenging work ( $M = 3.29$ ) scores are also moderate to high, with the majority of employees expressing a positive assessment of their personal state of motivation. However, satisfaction scores for methods of leadership ( $M = 2.98$ ) and working in a satisfactory way ( $M = 3.02$ ) are lower than scores for motivation, indicating that despite a high level of motivation, employees have issues with leadership styles and methods preventing them from being more satisfied with their workplace and leaders.

### **Hypothesis Testing**

Having presented the descriptive statistics analyses in previous sections, this section is devoted to the results of hypothesis testing. Five hypotheses were formulated for this research; four hypotheses were tested quantitatively based on answers to relevant portions of the survey, and the fifth hypothesis was tested qualitatively based on the participants' answers to open-ended questions at the end of the survey form.

#### **Hypothesis 1: Impact of Transactional Leadership on Employee Performance**

The first hypothesis related to the examination of the impact of leaders' transactional leadership traits and behaviors might have on employee performance. Results of correlation analyses are presented in Table 6.

Table 6

*Correlation Analysis of Hypothesis 1*

		EE1	EE2	EE3	COM1	COM2	COM3	MOT1	MOT2	SAT1	SAT2
CR1	<i>r</i>	-.03	-.03	.21	.14	-.01	.03	-.02	-.05	-.07	.02
	<i>p</i>	.82	.81	.07	.20	.92	.82	.87	.68	.53	.88
CR2	<i>r</i>	.12	.12	-.02	-.05	-.02	.04	-.13	.13	.10	.08
	<i>p</i>	.29	.27	.89	.66	.86	.73	.23	.25	.39	.47
CR3	<i>r</i>	-.03	.15	.14	.008	-.04	-.05	<b>.24*</b>	-.15	.18	.18
	<i>p</i>	.78	.19	.20	.95	.69	.66	<b>.03</b>	.19	.10	.11
CR4	<i>r</i>	.09	-.17	.03	.18	.10	-.01	-.08	.07	-.06	.15
	<i>p</i>	.44	.14	.80	.11	.40	.93	.47	.52	.58	.19
MBEA1	<i>r</i>	.09	.004	-.14	.15	.12	-.11	.21	-.16	.01	-.08
	<i>p</i>	.44	.98	.22	.19	.28	.35	.06	.15	.90	.48
MBEA2	<i>r</i>	.04	.13	-.12	-.03	.12	.03	-.10	-.11	-.10	.11
	<i>p</i>	.72	.27	.28	.80	.29	.76	.37	.31	.39	.31
MBEA3	<i>r</i>	.10	<b>.31**</b>	-.01	.03	.13	.11	<b>.27*</b>	-.14	<b>.23*</b>	<b>-.27*</b>
	<i>p</i>	.36	<b>.005</b>	.93	.80	.27	.32	<b>.02</b>	.20	<b>.04</b>	<b>.01</b>
MBEA4	<i>r</i>	-.17	<b>.23*</b>	.04	.00	.06	.05	<b>.36**</b>	.04	.12	<b>.34**</b>
	<i>p</i>	.14	<b>.04</b>	.76	1.00	.57	.63	<b>.001</b>	.71	.29	<b>.002</b>
MBEP2	<i>r</i>	.06	-.15	.01	<b>-.25*</b>	-.007	.09	-.08	.12	-.22	.17
	<i>p</i>	.62	.19	.90	<b>.03</b>	.95	.42	.47	.30	.05	.12
MBEP1	<i>r</i>	.02	<b>-.30**</b>	.07	.09	-.11	.02	-.05	.006	-.05	.04
	<i>p</i>	.84	<b>.006</b>	.55	.42	.33	.85	.64	.96	.64	.69
MBEP3	<i>r</i>	-.08	-.01	.07	-.02	.18	.04	.14	.18	-.07	-.05
	<i>p</i>	.50	.92	.54	.86	.11	.70	.23	.12	.56	.66

*Note:* Results of the various correlations suggest some aspects of transactional

leadership are correlated with employee performance, though the overall correlation is not as strong as initially expected. The notion of contingent reward was correlated with employee motivation (Pearson's  $r = .24, p = .03$ ). This association suggests that employees whose leaders provide clear instructions on what to expect in return for accomplishing a task have a stronger motivation to work.

The strongest correlations between transactional leadership behaviors and employee performance were found in the domain of active management by exception. Keeping track of mistakes was correlated with extra effort (Pearson's  $r = .31, p < .01$ ), motivation (Pearson's  $r = .27, p < 0.05$ ), and both satisfaction aspects (Pearson's  $r =$

.23 and -.27,  $p < .05$  for both). Directing attention to deviations from standards was statistically significantly correlated with extra effort (Pearson's  $r = .23$ ,  $p < .05$ ), motivation (Pearson's  $r = .36$ ,  $p < .01$ ), and satisfaction (Pearson's  $r = .34$ ,  $p < .01$ ). These correlations suggest that employees whose leaders closely monitor their performance and keep track of mistakes are more motivated to apply extra effort to improve their performance, are more motivated to work at the moment, and are satisfied with their interactions with leaders and the leaders' methods.

The domain of passive management by exception in transactional leadership was also positively correlated with extra effort and commitment. Failure to interfere until problems becomes serious was correlated with extra effort indicators of performance (Pearson's  $r = .25$ ,  $p < .05$ ), while waiting until things go wrong was correlated with commitment (Pearson's  $r = .30$ ,  $p < .01$ ). These findings, especially in the light of descriptive statistics analysis, reveal that non-exhibiting passive, avoidant behavior is correlated with greater extra effort and commitment of employees—low MBEP scores were reported on all aspects of this domain.

## **Hypothesis 2: Impact of Transformational Leadership on Employee**

### **Performance**

The second hypothesis of this study related to the impact of transformational leadership characteristics on specific aspects of employee performance. It was hypothesized that exhibiting strong transformational skills and behaviors. The leaders of accounting firms whose employees were surveyed could increase employee satisfaction, commitment, willingness to make an extra effort at work, and overall workplace motivation. The results of correlation analyses performed to test Hypothesis 2 are provided in Table 7.

Table 7

*Correlations for Hypothesis 2 Test*

		IS1	IB1	IS2	IM1	IA1	IM2	IB2	IC1	IA2	IC2	IA3	IB3	IM3	IC3	IS3	IC4	IS4	IB4	IM4
EE1	<i>r</i>	-.10	.07	.08	.07	-.01	-.13	.03	.11	-.08	-.10	.02	.02	-.04	-.05	-.14	-.09	-.17	-.01	-.001
	<i>p</i>	.36	.52	.45	.54	.93	.25	.83	.33	.50	.36	.85	.87	.73	.64	.23	.40	.13	.92	.996
EE2	<i>r</i>	.001	-.03	.23*	.18	-.02	-.007	-.07	-.09	.18	-.14	.07	-.17	.03	-.07	.12	-.15	.02	.03	.03
	<i>p</i>	.995	.79	.04	.098	.84	.95	.55	.44	.10	.20	.55	.12	.79	.52	.27	.18	.89	.82	.79
EE3	<i>r</i>	.03	.05	-.13	.04	<b>.31**</b>	-.10	-.13	.09	.12	-.06	.05	-.09	.03	.11	.00	-.05	-.07	.08	.05
	<i>p</i>	.79	.68	.25	.70	<b>.004</b>	.35	.24	.40	.28	.59	.64	.42	.77	.34	.998	.67	.52	.45	.66
COM1	<i>r</i>	.07	-.18	.02	.16	-.12	-.005	-.02	.06	-.02	-.10	.03	<b>.29**</b>	-.05	.17	<b>.26*</b>	-.03	-.06	-.009	-.04
	<i>p</i>	.56	.10	.89	.16	.27	.97	.86	.60	.89	.37	.80	<b>.008</b>	.63	.12	<b>.02</b>	.78	.58	.93	.72
COM2	<i>r</i>	.02	.006	.01	-.03	-.08	.09	<b>.24*</b>	.02	.12	.07	.09	.02	-.14	.10	-.12	-.05	<b>.30**</b>	.10	.13
	<i>p</i>	.85	.96	.93	.80	.46	.42	<b>.03</b>	.88	.28	.53	.43	.89	.21	.38	.27	.67	<b>.006</b>	.37	.23
COM3	<i>r</i>	-.03	-.13	.10	-.14	-.03	.04	-.12	-.21	.03	-.06	-.13	.05	-.05	.10	-.03	.10	-.04	-.19	.009
	<i>p</i>	.82	.25	.39	.21	.78	.73	.28	.06	.80	.60	.24	.67	.68	.36	.82	.36	.70	.08	.94
MOT1	<i>r</i>	-.03	-.04	-.02	<b>.26*</b>	.12	-.12	-.18	.10	.11	-.10	.06	.18	.10	-.14	.08	-.03	-.02	.16	-.01
	<i>p</i>	.77	.69	.83	<b>.02</b>	.28	.28	.11	.38	.32	.36	.57	.10	.36	.20	.48	.82	.83	.15	.93
MOT2	<i>r</i>	.05	.06	.003	.03	.07	.07	.08	.09	<b>-.22*</b>	-.19	<b>.23*</b>	.01	.16	-.15	-.15	-.04	.17	.11	.18

		IS1	IB1	IS2	IM1	IA1	IM2	IB2	IC1	IA2	IC2	IA3	IB3	IM3	IC3	IS3	IC4	IS4	IB4	IM4
	<i>p</i>	.65	.62	.98	.79	.55	.54	.46	.45	<b>.04</b>	.09	<b>.04</b>	.90	.15	.19	.19	.72	.14	.34	.11
SAT1	<i>r</i>	-.13	.07	.03	.10	.14	-.004	-.13	-.11	.03	-.19	-.05	-.06	-.03	.09	.07	-.13	-.12	<b>-.28*</b>	-.03
	<i>p</i>	.26	.52	.78	.38	.22	.97	.24	.35	.82	.08	.68	.63	.79	.44	.55	.24	.28	<b>.01</b>	.81
SAT2	<i>r</i>	-.07	-.15	.07	.03	-.03	.05	.07	.05	<b>.33**</b>	.05	-.03	.16	-.20	-.06	.04	.13	-.19	.19	<b>.22</b>
	<i>p</i>	.56	.19	.53	.77	.82	.63	.53	.68	<b>.002</b>	.63	.80	.15	.07	.58	.75	.23	.09	.09	<b>.05</b>

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

\*. Correlation is significant at the 0.05 level (2-tailed).

Overall, a very strong relationship was identified for the majority of transformational leadership domains. All idealized influence attributes were associated with specific domains of employee performance: IA1 (instills pride for being associated with him/her) was strongly correlated with employees' extra effort and willingness to try harder at work (Pearson's  $r = .31, p < .01$ ). IA2 (goes beyond self-interest for the good of the group) was strongly correlated with motivation (Pearson's  $r = .22, p < .05$ ) and employee satisfaction (Pearson's  $r = .33, p < .01$ ). IA3 (acting in ways that build employees' respect) was correlated with motivation (Pearson's  $r = .23, p < .05$ ). These findings suggest that once the transformational leader demonstrates strong idealized influence attributes and generates respect among employees because of dedication to the interests of the firm, the leader is rewarded with increased employee effort, greater motivation for work, and satisfaction with working for the firm under such a dedicated leader.

The idealized influence behaviors were also found to be correlated with various aspects of employee performance. For example, the importance of having a strong sense of purpose was correlated with commitment (Pearson's  $r = .24, p < .05$ ) and consideration of moral and ethical consequences of decision was correlated with commitment indicators (Pearson's  $r = .29, p < .01$ ). Having a collective sense of mission was strongly correlated with satisfaction (Pearson's  $r = .28, p < .05$ ), thus indicating that employees appreciate leaders' commitment to purpose and mission, and work in a much more committed way for leaders with a strong vision.

Only two dimensions of intellectual stimulation as part of transformational leadership were correlated with employee performance. Leaders' ability to get employees to look at the problem from many different angles was strongly correlated with commitment (employees' evaluation of their firm as a good place to work);

(Pearson's  $r = .26, p < .05$ ), while suggestions of new ways of assignment completion was associated with another aspect of commitment—correspondence of one's personal values and values of the firm (Pearson's  $r = .30, p < .01$ ). These results indicate intellectual stimulation is a highly valued component of leaders' interactions with employees; once employees believe they are challenged at work, their commitment grows.

Inspirational motivation was found to be correlated with overall employee motivation and satisfaction with the workplace. Leaders' speaking optimistically about the future was correlated with employees' feeling of being motivated at work (Pearson's  $r = .26, p < .05$ ), while expression of confidence in achievement of goals was correlated with employees' satisfaction with the ways in which leaders work with them (Pearson's  $r = .22, p < .05$ ). The implication of this strong correlation is that inspiration and motivation are tied with work satisfaction, and efficient motivation might serve as a tool for leaders to increase employee engagement with workplace goals and routines. Individual consideration was not correlated with any of the employee performance domains (see the discussion section).

### **Hypothesis 3: Association Between Transactional/Transformational Leadership and Innovation**

The third hypothesis was formulated to test the strength of association between each of the studied leadership styles and innovation. For convenience of examination and comparison of the relative strength of association for transactional and transformational leadership, separate analyses were done for each of the leadership styles. Correlation analysis results for transactional leadership and innovation are shown in Table 8.

Table 8

*Association between Transactional Leadership and Innovation*

		CR1	CR2	CR3	MBEA1	MBEA2	MBEA3	MBEA4	MBEP1	MBEP2	MBEP3
INN1	<i>r</i>	.04	.006	-.16	.13	-.14	-.02	-.07	.26*	.04	.11
	<i>p</i>	.70	.96	.15	.24	.23	.89	.51	.02	.69	.32
INN2	<i>r</i>	.04	-.01	.08	.06	.08	.10	-.13	.03	-.05	.14
	<i>p</i>	.69	.93	.49	.61	.47	.36	.26	.79	.69	.21
INN3	<i>r</i>	.02	.03	.04	.14	.19	.06	.18	-.06	-.22*	.20
	<i>p</i>	.83	.78	.72	.20	.09	.60	.11	.57	.05	.07
INN4	<i>r</i>	<b>-.24*</b>	.14	.06	-.11	.009	-.19	-.11	.08	.04	.06
	<i>p</i>	<b>.03</b>	.21	.57	.33	.94	.09	.32	.47	.75	.57
INN5	<i>r</i>	.13	.005	.008	-.03	.11	-.001	.00	.04	-.21	.002
	<i>p</i>	.23	.97	.94	.80	.34	.99	1.00	.75	.05	.99
INN6	<i>r</i>	-.01	-.08	.01	.09	.13	.22*	-.02	-.22*	.08	-.12
	<i>p</i>	.91	.45	.92	.41	.25	.04	.87	.05	.48	.27
INN7	<i>r</i>	.02	.04	.02	-.02	-.08	-.09	.13	.27*	-.07	.16
	<i>p</i>	.85	.74	.86	.84	.50	.43	.24	.01	.54	.15
INN8	<i>r</i>	<b>-.23*</b>	-.03	-.16	<b>-.33**</b>	-.17	-.002	.10	-.02	.19	-.07
	<i>p</i>	<b>.04</b>	.80	.14	<b>.003</b>	.14	.99	.38	.84	.08	.51
INN9	<i>r</i>	-.12	-.01	-.13	-.006	.03	-.12	-.12	.14	-.19	.11
	<i>p</i>	.29	.93	.25	.96	.82	.29	.30	.22	.09	.34

Note. \*. Correlation is significant at the 0.05 level (2-tailed). \*\*. Correlation is significant at the 0.01

level (2-tailed).

As shown in Table 8, only six innovation behaviors were correlated with employee performance. Use of innovative thinking was strongly correlated with the absence of inability to interfere until problems get serious (Pearson's  $r = .26, p < .05$ ), which suggests that innovative thinking is closely related to early problem detection and proactive problem solving. The use of abductive reasoning was also correlated



with the MBEP domain of waiting until things go wrong before taking action (Pearson's  $r = -.22, p < .05$ ). Given that the MBEP domain was rated very low and innovation was rated better, the suggestion is that effective application of abductive reasoning involves logic-based, proactive, anticipatory problem solving, which explains the relationship. Acting in a forward-thinking manner without constraints of the past was strongly correlated with contingent reward—assistance in exchange for employee efforts (Pearson's  $r = -.24, p < .05$ ). This association indicates a forward-thinking strategic approach to dealing with employees as valuable assets. Hence, forward-thinking leadership approaches include strong employee appreciation as a potential investment in organizational performance. Knowing that there is always a better way was correlated with keeping track of all mistakes (Pearson's  $r = .22, p < .05$ ) and a failure to interfere in a timely manner (Pearson's  $r = -.22, p < .05$ ).

Pursuit of meaning more than results was associated with providing assistance in exchange for employee efforts (Pearson's  $r = -.23, p < .05$ ) and focus of attention on irregularities, mistakes, and deviations from standards (Pearson's  $r = -.33, p < .01$ ). These associations are important in terms of implementing innovation in the workplace because an innovative leader seeks to establish meaningful, individualized relationships with employees as a first step to fostering collaborative innovation. In contrast, prioritization of meaning over results was also correlated with a focus on deviations from standards, which implies that truly effective leaders are able to both emphasize meaning and adhere to standards of performance.

It is worth noting that acceptance of ambiguity was positively correlated with a failure to interfere in a timely manner (Pearson's  $r = .27, p < .05$ ), which was unexpected because there were no evident associations between these two behaviors. A possible explanation is provided in the discussion section. Also, the innovation

leadership traits of intuitive, creative actions, holding multiple possibilities, and using collaborative inquiry and crafting were not associated with any aspects of transactional leadership, suggesting that these behaviors are not in tune with transactional leadership principles. Instead, the transactional style of leadership is strongly correlated with a set of meaningful, specific innovation behaviors. Though the overall correlation cannot be evaluated as significantly strong, these associations warrant consideration in the context of combining transactional leadership qualities with implementation of innovation.

Next, the association of transformational leadership with innovation behaviors and approaches was examined. Results of correlation analysis for transformational leadership domains and indicators of innovativeness are presented in Table 9. As reflected in the data, the association of transformational leadership behaviors with innovative approaches (at least in this sample of participants) is weaker than that of transactional leadership behaviors. Innovative thinking is correlated with consideration of moral and ethical consequences of decisions (Pearson's  $r = -.33, p < .01$ ) and articulation of compelling vision for the future (Pearson's  $r = .35, p < .01$ ). Innovative thinking is common in contemporary businesses, accompanied by the dimensions of ethical and social responsibility, while a strong future vision and ability to communicate that vision in a motivating manner to employees are innovations in themselves.

Table 9

*Association between Transformational Leadership and Innovation*

		IS1	IS2	IS3	IS4	IC1	IC2	IC3	IC4	IB1	IB2	IB3	IB4	IM1	IM2	IM3	IM4	IA1	IA2	IA3
INN1	<i>r</i>	-.08	-.15	.05	.04	.07	.07	.10	-.05	.03	-.17	<b>-.33**</b>	-.13	-.07	-.02	<b>.35**</b>	-.07	-.04	-.06	-.05
	<i>p</i>	.49	.19	.63	.71	.55	.53	.36	.67	.77	.12	<b>.003</b>	.27	.55	.84	<b>.001</b>	.53	.75	.59	.65
INN2	<i>r</i>	.095	.12	.15	-.07	.02	-.03	.05	.05	-.01	-.19	.07	-.20	.10	.06	.08	.01	.16	-.01	-.12
	<i>p</i>	.40	.29	.17	.53	.87	.78	.63	.64	.92	.09	.53	.07	.36	.62	.49	.92	.15	.93	.30
INN3	<i>r</i>	-.09	-.13	-.17	-.01	-.21	.001	<b>.26*</b>	-.003	-.005	-.18	-.21	-.095	-.004	.02	<b>.24*</b>	-.03	.14	.001	-.05
	<i>p</i>	.43	.24	.13	.91	.06	.99	<b>.02</b>	.98	.97	.11	.06	.40	.97	.89	<b>.03</b>	.82	.23	.99	.65
INN4	<i>r</i>	.02	-.06	-.14	-.21	-.001	-.06	-.096	-.11	-.20	.02	-.04	.09	-.06	-.001	-.05	.16	.13	-.08	-.11
	<i>p</i>	.85	.57	.23	.06	.99	.58	.39	.34	.08	.87	.74	.40	.58	.995	.69	.16	.25	.48	.32
INN5	<i>r</i>	-.03	-.09	.01	-.10	.06	-.03	.04	.13	-.02	.08	-.06	-.002	.11	-.20	-.06	.08	.01	-.003	-.18
	<i>p</i>	.76	.43	.92	.36	.61	.80	.74	.26	.86	.46	.60	.99	.33	.07	.57	.50	.90	.98	.10
INN6	<i>r</i>	.11	.15	.03	.18	-.08	.02	-.099	-.03	.19	.03	-.12	-.02	.03	.08	.04	.14	<b>.29**</b>	.04	.17
	<i>p</i>	.32	.19	.82	.097	.50	.87	.38	.80	.09	.81	.28	.90	.76	.46	.73	.20	<b>.008</b>	.73	.12
INN7	<i>r</i>	.02	-.12	-.12	.01	.06	-.11	-.01	.02	.13	-.03	<b>.27*</b>	.15	-.16	-.08	.02	.06	-.06	-.21	-.11
	<i>p</i>	.85	.28	.31	.92	.59	.33	.93	.84	.26	.82	<b>.02</b>	.20	.15	.48	.83	.61	.62	.06	.32

INN8	<i>r</i>	-.20	-.007	<b>-.28**</b>	.09	-.05	-.09	-.14	.07	.11	-.06	.21	.21	-.06	-.14	.16	-.07	-.15	-.08	.03
	<i>p</i>	.08	.95	<b>.01</b>	.45	.67	.44	.20	.53	.34	.62	.06	.06	.60	.23	.17	.53	.19	.48	.77
INN9	<i>r</i>	-.07	.07	-.15	-.02	-.05	.10	.003	-.19	-.18	.007	.01	-.01	-.10	-.20	.04	.004	.11	-.04	-.13
	<i>p</i>	.56	.55	.18	.86	.64	.37	.98	.09	.11	.95	.93	.92	.36	.08	.75	.97	.35	.72	.25

Note. \*. Correlation is significant at the 0.05 level (2-tailed). \*\*. Correlation is significant at the 0.01 level (2-tailed).

The use of abductive reasoning was strongly correlated with the ability to communicate a compelling vision for the future (Pearson's  $r = .26, p < .05$ ), but this innovative approach is also linked to individual consideration of individuals as having different needs, abilities, and aspirations (Pearson's  $r = .24, p < .05$ ). Abductive reasoning is logic, anticipatory thinking common in strategic business planning. By using abductive reasoning, innovative leaders are able to design strong future strategies, efficiently share those strategies and plans with staff, and empower each employee to successfully accomplish those aims.

Knowing there is always a better way was positively correlated with the transformational leadership attribute of instilling pride in employees for association with their leader (Pearson's  $r = .29, p < .01$ ). Relishing ambiguity was correlated with considering moral and ethical consequences of decision making (Pearson's  $r = .27, p < .05$ ); ethics and ambiguities are frequently associated with each other. Finally, the pursuit of meaning more than results in the workplace was correlated with looking at the problem from different angles (Pearson's  $r = -.28, p < .01$ ), which is not surprising, given the importance of using multiple perspectives for problem solving in the innovative workplace. Striving to increase of performance and raising standards might explain this idealized influence.

Overall, the association between transformational leadership and innovativeness was weaker in this sample than was expected. These findings were surprising, considering the traditional link between transformational leadership and innovation in the leadership research. An explanation might be found in the low rankings of innovation approaches, which indicated that although transformational leadership is highly present in the accounting firms whose employees were surveyed,

innovation is still scarce and few leaders in these workplaces try innovative approaches.

#### **Hypothesis 4: Impact of Innovation on Employee Performance**

The fourth hypothesis related to the impact of innovation on employee performance. It was hypothesized that leaders who employ more innovative approaches and efforts in the workplace are likely to bring about better employee performance, raise motivation and commitment, and urge employees to make extra efforts to help their organization succeed. The results of correlation analyses for this hypothesis are presented in Table 10.

As indicated in Table 10, there is a low association between innovation and employee performance. Extra effort on doing more than it is expected from an employee was correlated with knowing there is always a better way (Pearson's  $r = -.25, p < .05$ ), while an employee's heightened desire to succeed was correlated to innovative thinking (Pearson's  $r = -.25, p < .05$ ). Besides those associations, the only meaningful correlation was between motivation (regarding one's job as challenging) and innovative thinking (Pearson's  $r = .23, p < .05$ ). This low level of association might be explained by the low ranking of innovation. The scarcity of innovative behaviors in the workplace implies employees find other sources of motivation, satisfaction, and commitment. Another suggestion is that employees simply do not recognize innovation behaviors and approaches in their leaders. Implications of these observations will be discussed in greater detail in the discussion section.

Table 10

*Correlation of Innovation and Employee Performance*

		INN1	INN2	INN3	INN4	INN5	INN6	INN7	INN8	INN9
EE1	<i>r</i>	.02	-.02	.01	.03	.01	<b>-.25*</b>	-.13	.02	.04
	<i>p</i>	.85	.84	.92	.82	.91	<b>.03</b>	.26	.89	.73
EE2	<i>r</i>	<b>-.25*</b>	.09	-.06	-.15	-.03	-.03	-.15	-.005	-.11
	<i>p</i>	<b>.02</b>	.41	.59	.19	.82	.82	.19	.96	.31
EE3	<i>r</i>	.05	.005	-.08	.05	.07	.05	-.001	-.22	-.17
	<i>p</i>	.67	.96	.46	.69	.55	.66	.996	.05	.13
COM1	<i>r</i>	.12	.14	-.18	-.14	.11	-.12	.13	-.05	.08
	<i>p</i>	.31	.22	.11	.20	.31	.27	.26	.67	.49
COM2	<i>r</i>	.07	.02	-.03	-.04	.05	.06	-.08	-.08	.05
	<i>p</i>	.53	.90	.79	.70	.64	.61	.46	.47	.67
COM3	<i>r</i>	-.13	-.02	-.05	-.01	-.21	-.17	-.01	.12	-.11
	<i>p</i>	.24	.89	.68	.91	.06	.13	.91	.27	.31
MOT1	<i>r</i>	-.20	.06	.02	-.05	.09	.06	.15	.14	-.09
	<i>p</i>	.07	.62	.90	.67	.42	.61	.18	.22	.45
MOT2	<i>r</i>	<b>.23*</b>	.05	-.04	.17	-.098	.21	.06	.06	.11
	<i>p</i>	<b>.04</b>	.68	.75	.14	.38	.06	.61	.59	.35
SAT1	<i>r</i>	.07	.01	.05	-.05	.11	.006	-.05	-.15	-.21
	<i>p</i>	.54	.91	.67	.63	.33	.96	.63	.18	.05
SAT2	<i>r</i>	-.10	-.08	-.03	-.08	.07	-.08	-.05	.08	-.15
	<i>p</i>	.36	.47	.78	.50	.53	.49	.64	.50	.17

Note. \*. Correlation is significant at the 0.05 level (2-tailed).

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

## **Hypothesis 5: Transformational/Transactional Leadership, Innovation, and Overall Organizational Success**

The final portion of the survey consisted of four open-ended questions that asked participants whether they associate their leaders' leadership traits and behaviors with organizational success. They were asked about that connection and the overall role of leadership in the organization. A separate question related to innovativeness of leadership in the participants' firms and the employees' perceptions of barriers to success in terms of leadership and innovation in the process of qualitative analysis. A number of overarching themes emerged and are addressed separately as answers to the fifth research question.

### **Organizational Success and Leadership**

Analysis of employees' responses to qualitative questions regarding a link between organizational success and leadership revealed a strong connection. The majority of surveyed employees stated they receive guidance and vision from their leaders, which helps them work toward the established goal. For instance, Participant 23 claimed, "without a leader, we simply perform daily duties. Leaders shape those duties into future and success," while Participant 46 confided, "I am sure that without Mr. X [their firm's leader], 90% of our clients would have chosen another firm. He possesses the charm and talent to persuade, so our firm prospers." Guidance was also the link between leadership and organizational success; participants 15, 17, and 62 confirmed that their own personal and professional growth due to their leader's coaching and advice, while 14 other survey participants reported in-house training and leaders' monitoring of their progress as their major guiding force in the firm. Participant 75 stated, "Without my boss, I cannot make sense of why each of us works on what we do." In these examples, employees expressed their perceptions of strong



connections to and appreciation for their leaders' guidance to them put them on the path toward overall organizational success.

Another link between organizational success and leadership involves standard setting and performance monitoring. Employees might have a clear idea of what is expected from them at work, but inspirations for better performance and close tracking of potential deviations from high quality are what keep firms functioning successfully. As Participant respondent 22 shared, "My department works well, but only leadership makes us try harder and work great." Participant 38 stated, "Without performance monitoring, our firm would be just one of the dozens of competitors in the market. Our leaders made it superb." Robust performance monitoring and the culture of excellence are what make firms successful, establishing a close bond between employees and their leaders, based on a consensus of expectations and rewards/punishments for meeting or failing them.

Participants in the study attributed the organizational success to leaders' guidance and support. Leaders are the essential link between clients and employees; they help employees in cases of trouble and guide those confused or challenged by the task. Participant 56 pointed out, "Sometimes I cannot resolve an accounting issue, and my leader is always there. Otherwise, I would have lost the client." In addition, Participant 82 claimed, "All employees know to whom to turn when in need; leaders resolve problems and the firm keeps going." In some cases, leaders even help employees to prevent a scandal with accounting; one calculation mistake might result in devastating consequences. As Participant 67 confided, "A year ago, our leader solved a scandal with one client because of the mistake of inexperienced accountant intern. We were impressed by his negotiation acumen, but that experience was very stressful for all of us."

Finally, leaders work with clients and shareholders, so their personal and leadership qualities, ability to negotiate and resolve conflicts, and their aptitude to attract new clients all determine the reputation and success of the firm in the market. In this way, leaders are spokespersons of their firms in the wider market and represent the interests of the firm. Serving effectively in these capacities makes a firm successful—clients prefer working with strong, convincing leaders instead of weak, unimpressive personalities.

### **Contribution of Leadership and Innovation to Organizational Performance**

The most important contribution of innovative leaders to steady improvement of organizational performance is that of establishing a vision, a sense of purpose, and formulation of deliverables that may assist employees in achieving organizational goals. As Participant 74 stated, “leaders are the ones who see not only the present, like regular employees, but set strategies and goals for the future.” This opinion was confirmed by Participant 31, who claimed, “Our work is present, while leaders’ work is future—they are forward-looking, which I admire.” In connection with that sentiment, innovation is an important aspect of leaders’ performance because leaders are interested in continuous growth and enhancement of the position of their firm in the marketplace.

Accounting firm employees’ understanding of innovation in their companies related only to reformation and optimization of some internal workplace practices and routines; no one mentioned disruptive innovation or any large-scale innovative initiatives. As Employee 18 stated, “Leaders get new clients, improve overall performance, and introduce new practices—set the whole firm working. I see innovation in that,” while Employee 29 said, “Innovative leaders effectively distribute responsibilities among staff so that everyone knows what to do and there are no gaps

in work or double work.” Thus, accounting firms are not innovative in the traditional sense of the word. For accountants, innovation involves eliminating mistakes or optimizing workplace practices, which is enough to improve work performance and quality.

Analysis of participants’ opinions on innovation revealed that the field of accounting is not conducive to innovation in broad terms. Participant 61 said, “Accounting is much more about keeping to high, rigid standards of performance—not about innovation,” a sentiment that helps to explain why innovation has little relevance in the context of accounting firms. Responses such as Participant 61’s reflect a limited understanding of what innovation essentially is, and a broader vision of innovation opportunities in the accounting business context is needed to help these firms take better advantage of workplace innovation.

### **Barriers to Organizational Success Related to Leadership and Innovation**

Not all survey participants held such a narrow view of innovation in accounting. Some of them were able to appreciate the importance of improving their focus on innovation as a solution to better performance and quality increase in their workplaces. Participant 80 stated, “More innovations in approaches to recruitment and staffing are needed so that more motivated, energetic people join the firm.” In this way, organizational culture might gradually evolve and become more innovative, with a greater influx of innovative ideas and powerful resources.

Some participants voiced the need for leaders to implement innovative practices of working with staff; Participant 16 said, “Leaders should become closer to staff—they distribute responsibilities and monitor performance, but more individual consideration would improve staff’s performance.” Of the 82 participants, 25 expressed the need for more individual consideration and rapport from leaders.

Consequently, individual consideration that was loosely connected with the majority of leadership aspects in the analysis of survey responses is a thing that employees lack. Thus, introduction of innovative approaches to employee collaboration and teamwork to accomplish goals may have great potential to grow and improve the performance of accounting firms through staff performance and innovation buy-in. As Employee 49 noted, “There is a need to create the proper climate for innovation. Innovation is poorly understood by employees because they do not see those efforts, and innovation is not in the organizational culture of accounting firms.” Accounting firms need to create the climate in which innovation can thrive. At present, leaders of accounting firms underestimate the importance of innovation, and this underestimation is a major barrier to further organizational success.

Participant 66 suggested a way in which innovation might be introduced in accounting firms: “Innovation culture may be fostered through a new approach to ambiguity—while leaders try to reduce ambiguity in planning, there should be more acceptance of ambiguity and more inclusion of teams into shaping the future of the firm.” By accepting ambiguity, firms may develop a more dynamic organizational culture, and thereby become modern and innovative, energetic players in the 21st-century business marketplace. Looking for new clients and setting and exceeding performance targets are approaches to embracing innovation and reforming an organizational culture in accounting. Leaders are the key agents of change in that process.

### **Summary of Findings**

Analysis of findings revealed that both transactional and transformational leadership qualities were ranked highly by the majority of survey participants, suggesting the strong presence of each leadership style in the leadership practices in

place at surveyed firms. The highest ranking was given to leaders' ability to provide contingent rewards and active management by exception—characteristics of transactional leadership. In terms of transformational leadership, leaders' allocation of effort for teaching and coaching and enthusiastic communication about what needs to be accomplished were the most frequently noted positive responses. Other positive rankings included having a strong sense of purpose and going beyond self-interest for the good of the group. Remaining elements in the domains were also ranked highly, but fewer individuals stated that those behaviors were frequently, if not always, present in their leaders' behavior. The overall ranking of innovation behaviors and approaches was low, with the majority of items ranked lower than 2. Employee performance was ranked high, like the transactional and transformational leadership rankings, with extra effort only enjoying lower scores than the rest of performance indicators.

Tests of hypotheses revealed the impact of both transactional and transformational leadership on employee performance. The first and second hypotheses were supported, with the majority of leadership domains exhibiting a statistically significant relationship with key dimensions of employee performance. The third hypothesis demonstrated transactional leadership was more strongly associated with innovation, while transformational leadership was associated with innovation in fewer items. The fourth hypothesis was rejected because the relationship between innovation and employee performance was weak. It is possible that some employees might simply have no idea about what innovative behaviors their leaders practice. These assumptions are confirmed in qualitative analysis related to Hypothesis 5, results of which indicated that employees have only a limited understanding of innovation in their firms. Qualitative analysis of the relationship of

leadership, innovation, and organizational performance showed a strong link between leaders' actions and overall organizational success, and pointed to ways in which leaders may boost performance and organizational success through implementation of certain innovation efforts.

## Chapter 5

### Discussion of Findings

This study was designed to examine different leadership styles for their support for and promotion of innovation and creativity in performance of large accounting firms. The goal was to identify leadership characteristics necessary to increase efficiency of large accounting businesses by boosting innovation. A thorough literature review revealed transactional and transformational leadership styles are both highly effective for increasing overall organizational performance. Prior research indicated that contemporary leaders use innovation skills and competencies to foster motivation, commitment, and engagement of their subordinates in the task performance, thus streamlining organizational efficiency and success. Hence, five hypotheses were tested to investigate these issues in the accounting industry.

#### **Hypothesis 1: Impact of Transactional Leadership on Employee Performance**

The suggested positive impact of transactional leadership on the organizational performance of accounting firms was tested. Findings are consistent with those reported by previous researchers in the fields of business and leadership styles as well as organizational leadership in the field of accounting. Many studies provided evidence of the positive impact of transactional leadership on increased organizational productivity. Simon (2008) revealed a positive relationship between organizational performance and contingent reward and management-by-exception active (both forms of transactional leadership), and a lesser relationship with management-by-exception passive.

According to transactional leadership theory, in pursuing cost-benefit economic cooperation and exchange with subordinates, transactional leaders practice

either contingent reward or active management to satisfy emotional and physical needs of their followers in return for their enhanced performance (Martin, Cashel, Wagstaff, & Breunig, 2006). In contrast to success-oriented active management, passive management by exception focuses on challenges and failures, and taking actions in response to problems occurred (Watkins, 2008). Simon (2008) found that regardless of the form taken, transactional leadership correlates with organizational performance.

This study addressed all three forms of transactional leadership. Contingent reward and management-by-exception active appeared the most frequently applied modes of transactional leadership. Under the contingent reward framework, employees most frequently reported leaders dedicated to discussing who is responsible for achieving certain performance targets. Within the management-by-exception active framework, employees pointed out leaders who kept track of all mistakes as the most common leadership practice. Finally, the most frequently reported conditions of management-by-exception passive involved leaders waiting for problems to become serious before intervening. While seeking to prove the relationship between transactional leadership and organizational performance, this research revealed different approaches of transformational leadership.

Hargis et al. (2011) provided sound evidence to the correlation of transactional leadership and organizational performance using two different data sets. Scholars illustrated the relevance of transformational leadership to task performance and employee effort and commitment. The concept of organizational performance is multidimensional, with numerous factors affecting it (Jyoti, 2013). Leadership styles have a mediating or indirect effect on organizational performance. In other words, organizational leadership is accountable for the organizational culture, employee



attitudes, and satisfaction. Employee attitude and employee satisfaction are crucial for proactive performance and commitment (Irefin & Ali Mechanic, 2014).

Employee job satisfaction is a strong predictor of engagement and commitment to a positive organizational performance (Irefin & Ali Mechanic, 2014; Jyoti, 2013; Markos & Sridevi, 2010). Transactional leadership enhances organizational performance by increasing employee job satisfaction and employee commitment (Mancini, 2008). Although their research focused on factors underpinning corporate social responsibility, Groves and LaRocca (2011b) discovered that transactional leadership was effective for organizing and coordinating processes and operations to ensure efficiency and reduce lost production times, reflecting the positive effect of transactional leadership on organizational performance and efficiency.

As in other business sectors, the accounting industry requires strategic leadership aligned with modern marketplace trends and requirements; accounting firms must be capable of building collaboration between finance and business development teams (ACCA, 2013). Leaders of accounting firms are expected to provide innovative thinking and to create strategic directions while satisfying the accounting needs of clients. Kalin (2015) found personnel of accounting firms appreciate the transactional style of leadership for effective monitoring of the organizational performance, rewarding enthusiasm and commitment, and solving problems and failures. This type of organizational leadership fits the specifics of the accounting industry, which is characterized by high workloads and continuing sector development attributable to the emergence of modern technologies and devices (ACCA, 2013).

With its focus on operational flow, leaders who apply the transactional style of leadership utilize disciplinary power and various incentives to motivate employee development and to maximize performance. Scholars such as Gill (2010) and Hytter (2014) criticized transactional leadership for its singular concentration on ensuring flawless operation rather than business strategic positioning and participative or delegate leadership. However, this leadership style is effective for enhancing organizational performance by reorganizing policies, structures, and exercising continuous monitoring and feedback on followers' performance, which serves to achieve organizational targets and personnel development as well (Avolio, 2010).

Although Pantaleon (2015) revealed that Swedish leaders of audit teams and corporate units prefer inspirational motivation via transformational leadership, governing of businesses is impossible without the oversight and supervision inherent to transactional leadership. Barnes et al. (2013) expressed findings contrary to those reported by accounting firms in Utah, noting instead that transactional leadership appeared highly influential on personnel's perception of organizational performance and their professional satisfaction. Most subordinates reported an increase in organizational efficacy and efficiency under transactional leadership.

Similar to other studies in the field of organizational leadership aimed at business development and growth, the present study involved administering the MLQ to identify the style of leadership practiced in selected accounting firms in Massachusetts, and the influence of that style of leadership on organizational performance. The MLQ is a valid and reputable tool for the task, with a substantial number of studies proving its credibility, which reinforced the choice to employ the instrument (Chalofsky, 2014). The MLQ-based part of the survey questionnaire allowed the testing of the relationship between different forms of transactional

leadership and organizational performance in accounting firms. Contingent reward, management-by-exception active, and management-by-exception passive appeared correlated with organizational performance, which provides the ultimate support for accepting Hypothesis 1.

In particular, contingent reward leadership was found to have the greatest impact on employee motivation in terms of the manager's focus on clarifying individual outcomes of employees' proactive engagement and commitment to achieve organizational goals. Markos and Sridevi (2010) and Jyoti (2013) asserted that job satisfaction and motivation are the main predictors of individuals' performance relative to organizational targets. In this study, participants reported being motivated in their job and capable of handling professional challenges. Thus, the findings that the contingent reward form of transactional leadership contributes to employee motivation are credible.

Both MBEA and MBEP were found to have a strong relationship with employee performance that underpins a positive organizational performance. MBEA in the domain of leader's tracking for all mistakes led to an employee extra effort, job satisfaction, and motivation. In other words, when leaders actively engage in the overall organizational process to detect and initiate solutions to malfunctions and operational flaws, their subordinates become proactive and motivated performers automatically. The same effect takes place when transactional leaders direct their attention to employees' deviations from norms to make corrective measures. Although the employees surveyed in this study reported experiencing less satisfaction, they applied extra effort and motivation to pursue the established target. Echoing studies of Simon (2008), Hargis et al. (2011), and others, the present research

provides sound evidence to the dependence of organizational performance on transactional leadership exercised in a form of MBEA.

Contrary to the prevailing evidence, in this study, MBEP characterized by leaders' reluctance to engage in the organizational process unless an organization fails to meet the standards appeared correlated with organizational performance. Although both MBEP and MBEA focus on correcting errors and problem, MBEP differs from MBEA in the time of the intervention. Passive management might not prevent problems or allow for a quick and efficient response because of less involvement in the organizational process (Chalofsky, 2014). In comparison to high scores for contingent reward and MBEA leadership, participants reported low score for MBEP, which signifies the rare nature of MBEP leadership manifestations in the accounting firms whose employees participated in this study.

On this basis, the conclusion is that MBEP is correlated with organizational performance in this study only because of low MBEP scores. In other words, active leadership oriented to either reward orientation or standard compliance motivates employees for commitment and proactive engagement in a positive organizational performance, covering cases of rare passive management. Indeed, participants reported applying extra effort in their pursuit of organizational goals in cases when leaders failed to interfere until problems became serious. The situation might be explained by leaders' intentions to allow employees to exercise their powers and handle a problem independently or to observe how employees act in the face of the problem in the absence of supervision. Support for this argument is found in the correlation between MBEP when leaders did not act until things went wrong and employee commitment. The surveyed employees reported being inspired to work in a firm that leaves room for individual performance and self-checking.

In summary, the results indicated there is a positive relationship between transactional leadership and organizational performance. Furthermore, there is evidence of the relationship between all three forms of transactional leadership and employee motivation, job satisfaction, and commitment that are the core predictors of high employee productivity and effective performance. The dominance of contingent reward and management-by-exception active approaches suggests that transactional leaders may exercise MBEP occasionally as employee competency assessment rather than simple ignorance of the organizational process.

## **Hypothesis 2: Impact of Transformational Leadership on Employee**

### **Performance**

Relying on claims in the scholarly literature that practitioners of transformational leadership have the ability to increase productivity and organizational efficiency, it was hypothesized that there was a relationship between this leadership style and employee performance in accounting firms. While testing the hypothesized relationship, the focus was on five pillars of the transformational leadership paradigm: individual consideration, idealized influence attributes, idealized influence behaviors, intellectual stimulation, and inspirational motivation (Beauchamp & Eys, 2014). Participants in this study reported exposure to all five strategies of transformational leadership. In terms of individual consideration, employees reported on leaders' focus on teaching and coaching, while treating every employee as an individual rather than as a member of a group as the most frequent practices.

Typically, leaders of the employees in this study demonstrated idealized influence attributes through prioritizing the good of the group rather than personal interests. Idealized influence behaviors were demonstrated in leaders' placing

importance on sharing a sense of purpose the most. In contrast to other domains, intellectual stimulation was not the focus of transformational leadership practiced by leaders of the accounting firms in this study. Participants reported on leaders' encouragement to analyze the problem from different angles and to resolve problems accordingly as well as initiate of new ways of completing assignments. The most common example of intellectual stimulation reported by participants was enthusiastic talks about particular tasks to be accomplished.

In contrast to the transactional style of leadership, which is focused on motivating employees to engage in a positive organizational performance through systems of rewards and incentives, transformational leadership emphasizes the value of each employee's effective performance (Hurduzeu, 2015). In other words, transformational leadership concentrates on employees' nonmonetary motivation to work and addresses its aspects to force proactive engagement and commitment to organizational performance. Regarded as a contemporary philosophy of leadership, the transformational model has received considerable attention in the academic community.

Many empirical studies have been conducted on this model of organizational leadership to define its outcomes. Most of the studies focused on the mediating effect of transformational leadership on organizational performance achieved through the increase in employee job satisfaction and commitment. For instance, F. Ahmad, Abbas, Latif, and Rasheed (2014) found evidence of improved employee motivation from transformational leadership. Motivation is one of the crucial elements of organizational performance because it underpins the individual's enthusiasm to persist in achieving goals. Despite its apparent importance, motivation may not predict good performance or operational productivity (Robbins, Judge, & Vohra, 2013).

Hargis et al. (2011) demonstrated the critical importance of transformational leadership for organizational performance in terms of team efficacy and cohesion. Katou (2015) provided similar findings that supportive and responsive transformational leadership contributes to organizational growth and performance. The study pointed out that the transformational model of leadership increases organizational procedural justice, team integrity and dependability, and employee commitment to the pursuit of organizational targets. Both Hargis et al. and Katou emphasized that transformational leadership raises organizational productivity and efficiency through building a culture of trust and fairness within the organization.

García-Morales, Lloréns-Montes, and Verdú-Jover (2008) affirmed the positive relationship between transformational leadership and organizational performance. They highlighted the capability of practitioners of this leadership model to understand and establish a shared vision of the modern value of knowledge and innovation for business functioning. By recognizing and taking advantage of the relationships between these strategic variables, transformational leaders can orient their subordinates to achieve sustainable performance and competitive advantage of the organization in the marketplace (Robbins et al., 2013).

García-Morales et al. (2008) examined transformational leaders' perceptions of ways of enforcing employee knowledge, such as organizational learning, absorptive capacity, knowledge slack, and the tacit nature with the ultimate goal of increasing employee productivity. They discovered that transformational leadership is positively correlated with organizational efficacy via knowledge-favoring incentives and organizational culture (García-Morales et al., 2008). Overstreet (2012) focused on the relationship between transformational leadership and organizational performance via organizational innovativeness. In a nationwide study of business

development in the motor vehicle carrier industry under transformational leadership, Overstreet hypothesized and proved that value-based business governance, inspiration of employees for innovation, and creativity improved both operational and financial performance of organizations. Overstreet confirmed there was an indirect relationship between transformational leadership and organizational performance. Higher employee motivation, team cohesion, organizational culture of trust and knowledge sharing, and innovativeness as outcomes of this leadership model boost organizational efficiency in terms of higher productivity and economic gains (García-Morales et al., 2008).

Focused on employee motivation and inspiration, transformational leadership is an asset for continuing staff development. The latter is fundamental to the accounting industry, where firms need to use the latest technology to fulfill customer expectations. In the context of ever-developing and expanding technology, the field of accounting is subject to regular updates and upgrades to modernize and optimize processes and systems to streamline organizational performance and to maintain a competitive advantage in the marketplace (Jeffrey, 2015). Along with technology upgrades, accounting firms face the need to maintain adequate qualifications of their personnel. Hence, employees in accounting firms must monitor trends in the industry to adopt new solutions and approaches, which signals the need for continued professional development. Continuing professional development is a core component of the transformational leadership paradigm focused on knowledge acquisition and innovativeness (Jeffrey, 2015). That is why leaders of many accounting firms appreciate this model of organizational leadership as a means of streamlining organizational efficacy and fiscal growth.



J. Kim, Hatcher, and Newton (2012) explored the professional identity of accounting leaders to identify qualities and roles defined by current managers of accounting units and firms as crucial for sustainable development of the accounting industry. In addition to the traditional requirements for leaders in accounting firms, surveyed employees of accounting firms added multiple new competencies regarded as critical for business sustainability. These criteria included numerical and statistical proficiency, expertise in auditing and accounting procedures, knowledge of industry principles and policies, analytical skills, and critical thinking along with personal characteristics that contribute to the goal attainment. Forward-looking functions imply the need for creativity and innovation, team support, dynamic supervision, and a communication-driven approach (Kim et al., 2012). Hence, the list of emerging qualifications for effective leadership in accounting firms echoes the dimensions of transformational leadership.

The present study yielded comparable results, identifying a positive relationship between transformational leadership and organizational performance. In the domain of idealized influence attributes, the study revealed the relationship with all predictors to proactive employee engagement in positive organizational performance, such as satisfaction, commitment, and motivation. The leaders' practice of instilling pride in employees for being associated with them increased employee willingness to work hard and apply extra effort to achieve established organizational targets. Leaders' ignorance of personal interest in favor of the group evoked an employee's belief in the alignment of his or her values with corporate ones and satisfactory perception of leadership. Finally, leaders' commitment to gain and maintain employees' respect increased employee motivation to face and cope with job challenges. The impact of transformational leadership on employee motivation and

engagement seems credible in light of similar findings reported by F. Ahmad et al. (2014) and Katou (2015).

In the domain of idealized influence behaviors, the research revealed evidence of the correlation between employee commitment and job satisfaction. The results indicated a relationship between a leader's strong sense of purpose with employee commitment. Morally and ethically responsive leaders received the same appreciation from subordinates. Surveyed participants credited leaders who focused on establishing a shared vision and promoting collective identity. Therefore, transformational leadership, demonstrating attentiveness, responsiveness, and delegation of power to team members increase employee commitment and satisfaction, which leads to greater employee contribution and organizational performance. These findings are consistent with those of Hargis et al. (2011) and Katou (2015), who emphasized the importance of these leadership features on organizational efficiency.

In the domain of intellectual stimulation, transformational leadership appeared influential for employee commitment. The study revealed a positive association between leaders motivating their employees to adopt multiple perspectives to problem solving and employee perceptions of the firm as a good place to work, while leaders advising new ways for task completion evoked employee belief in the compliance of personal values with corporate ones. As Overstreet (2012) pointed out, transformational leadership boosts organizational performance by promoting and supporting innovation and creativity, which drives employees to adopt nontraditional solutions and new practices. Overstreet's findings were supported by Katou (2015) and Jeffrey (2015), who stressed the importance of individual consideration of

transformational leadership to enable employee productivity and commitment to organizational targets.

The argument individual consideration of transformational leadership enabled employee productivity and commitment to organizational targets was not supported by the findings of the present study. The most plausible explanation for this disparity concerns specifics of the accounting industry and its culture. The accounting industry requires strong analytical and critical-thinking skills from employees in all roles, which means all individuals must be capable of making decisions quickly, independently, and efficiently (Kim et al., 2012). Hence, accounting staff may not favor precise surveillance and coaching from leaders. Finally, transformational leadership focused on inspirational motivation contributed to employee motivation and job satisfaction. Thus, optimistic insight into the future of the firm strengthened employees' intentions to remain in the current workplace, while leaders' confidence in the possibility of achieving established goals increased employee satisfaction with the leadership experienced at the firm.

### **Hypothesis 3: Association Between Transactional/Transformational Leadership and Innovation**

Relying on previous research in the field of accounting of effective organizational management and leadership, it was hypothesized both leadership styles produce a positive impact on innovativeness. Incentive-driven transactional leadership and inspirational and motivational transformational approaches create a culture of trust and idea-sharing among employees. In encouraging subordinates to examine problems from multiple perspectives and to initiate nonstandard solutions, both leadership styles seem to facilitate creativity and innovation within their organizations (Johnson, 2011). While seeking to build an innovation-driven

organizational culture and environment, leaders foster their own development of various innovative competencies and skills. The list includes innovative thinking or creativity, being intuitive, demonstrating problem-solving and decision-making skills, engaging in abductive reasoning, taking forward-looking action, expecting professional excellence, engaging in multi-possibility thinking, eschewing ambiguity, being meaning-oriented, and promoting collaborative business thinking (Horth & Buchner, 2015).

Innovative thinking enables people to gain a new perspective or angle on a given issue, which allows new solutions to be generated. While applying creativity, a leader pays attention to several factors that might produce mediating or moderating effects on the problem, in contrast to the traditional approach to problem solving, which addresses only the direct cause (Johnson, 2011). Within innovative thinking, rationalization gives way to intuition and subjective perception of the situational context that might underpin the problem. Furthermore, innovative thinking implies the concept of personalizing, which enables leaders to consider individual skills, interests, and capabilities of each employee to increase his or her productivity (Horth & Buchner, 2015).

When making decisions, innovative leaders consider various points of view to produce a customized solution. Abductive reasoning as a feature of innovative thinking serves to redefine the problem and seek multiple possibilities of its resolution. Considering the problem from the wholesale perspective is another value of innovative thinking to ensure that outcomes of the solution will outweigh its implementation costs (Horth & Buchner, 2015). Creative thinkers are flexible and open-minded, which enables them to take risks and to envision unusual scenarios. Vivid imaging inherent to innovative thinkers is an asset in exploring the issue and

making real-case solutions, ready for implementation. Finally, innovative thinking is more vulnerable to collaborative inquiry practiced by regular ideas and insights sharing (Johnson, 2011). Therefore, forward-looking leaders acquire innovation skills in the process to transform into innovation leaders.

This mode of organizational guidance presupposes a leadership style able to build up networking, reward systems, innovation performance measures, consumer sensing, and ideas development (Deschamps, 2008). In the pursuit of such an organizational structure, leaders must establish and maintain a culture of curiosity, rigor, customer orientation, and empathy within their teams and organizations. Therefore, innovation leadership is customer-centric, while customer-centric culture is a driver of innovation. This circularity signifies the crucial role of organizational leaders in promoting and supporting innovation and creativity among their subordinates (Deschamps, 2008).

Though frequently titled as a leadership model, innovation leadership is more of a strategy than a separate leadership style. Innovation leadership implies the capability to sustain the organization in an ever-changing and complex global market environment. Thus, innovative leaders can innovate and deploy quickly and effectively to move the organization ahead of competitors toward success and economic growth (Hunter, Steinberg, & Taylor, 2012). Hence, leadership is one of the strongest predictors of innovation, and a certain (innovation-supportive) leadership type is paramount to drive the innovation process forward. Leaders dedicated to creating and maintaining environments favorable for employees to generate and share their ideas among themselves to reap expected benefits and avoid potential risks through incorporation of specific strategies and techniques are likely to ensure innovative work behavior within their organizations (Gatto, 2015).

In analyzing leadership styles practice in accounting firms in Massachusetts, this research revealed employees perceived their managers as innovative. The study participants indicated they had been exposed to all manifestations of innovative leadership, as outlined by M. Johnson (2011) and Horth and Buchner (2015). The most frequently observed features of innovative leadership were innovative thinking in problem resolution and utilization of collaborative inquiry and crafting to analyze business thinking. In addition, the surveyed employees characterized their leaders by meaning orientation, professional excellence, abductive reasoning, relished ambiguity, forward thinking, and multitasking. The least reported features of innovation leadership were intuitive action and creative problem solving and decision making.

Considering the apparent dependence of innovativeness on organizational leadership and forward-looking strategies of transformational and transactional leadership styles, it was hypothesized that both leadership models were likely to increase innovation and creativity in the management of accounting firms. This hypothesis was supported by empirical research providing evidence to either transformational or transactional leadership contributing to innovative work behavior. For instance, Crawford (2001) used two different population samples to prove the benefit of transformational leadership in terms of innovation boosting. Crawford underscored the results were expectable because of the concept of innovation in the transformational leadership paradigm.

According to theory, transformational leadership involves change management focused on helping employees to acquire new vision, practices, and skills (Chen, Tang, Jin, Xie, & Li, 2014). At the micro level, transformational leadership addresses the individual personality of the employee to ensure he or she understands and

supports the required change. At the macro level, leaders need to rebuild social and organizational structures to enable change execution, and these two-dimensional processes are based on the concepts of innovation, change, and entrepreneurship (Crawford, 2001). The concept of innovation underpins the overall paradigm of transformational leadership, which supports the claim of a direct relationship between innovation and transformational leadership.

The present study revealed a relationship between transformational leadership and innovation. In terms of idealized influence behaviors, the study demonstrated a correlation between leaders' ethically and morally responsive decision making with innovative thinking and relished ambiguity. As Hunter et al. (2012) pointed out, innovative leaders go beyond traditional norms and boundaries to exercise sustainable leadership, enabling continuing business development in the ever-changing environment of the modern market. Apart from organizational goals, innovative leaders take into account their employees, society, the environment, and the market. Thus, ambiguity is inherent in this multidimensional leadership model, which explains the relationship observed in surveyed employees' responses.

In the domain of intellectual stimulation, findings of the study revealed a positive relationship between leaders encouraging their subordinates to adopt a multiperspective approach to problem solving and the meaning orientation feature of innovation leadership. This finding was expected because innovation and creativity are integral parts of the transformational leadership framework dedicated to identifying and analyzing various variables and causes of a given problem rather than following the standard scenario for its resolution (Overstreet, 2012). Regarding individual consideration, the research revealed a relationship between leadership practice regarding each employee as having different needs, abilities, and aspirations

from the team and abductive reasoning. Although this relationship might be unexpected, a leader may use abductive reasoning as an instrument to withdraw from factual and observed evidence of employee identity to suggest additional qualities and competencies that might exist, but might not be utilized in the organizational process. This idea stems from the scholarly position that transformational leaders make the effort to deter employee skills and capabilities that may be unrealized by the employee (Beauchamp & Eys, 2014).

In terms of intellectual stimulation, the study revealed that employees characterized leaders who articulated a compelling vision for future with innovative thinking and abductive reasoning. While traditional leaders base their strategy and vision on calculations and estimates only, transformational leaders forecast based on logical analyses complemented by imaging and creative reasoning (Beauchamp & Eys, 2014). Finally, idealized influence attributes correlated with positive thinking of innovation leadership through the quality of instilling pride in employees for being associated with oneself. Continuing to strive to meet and exceed expectations forces transformational leaders to continue their professional development (García-Morales et al., 2008). As a result, the leader's omnipresent knowledge of a better way to complete assignments inspires followers, strengthening the leader's position as efficient and qualified to drive the team to excellence and achievement of goals of the organization.

In contrast to transformational leadership, transactional leadership is typically associated with surveillance and authority rather than encouraging inspiration and innovation (Pieterse et al., 2010). Thus, transactional leadership is associated with a negative relationship between leaders and employee innovativeness. However, scholars recognize that various circumstances that might produce moderating or



mediating effects, undermining the typical scholastic position (Ossebaar, 2012). In particular, Pieterse et al. (2010) revealed that transformational leadership itself does not ensure organizational innovativeness unless it produces high psychological empowerment. Under other conditions, transactional leadership appeared to be a stronger predictor to innovation than transformational leadership. Hence, the relationship between transactional leadership and innovation is controversial and flexible.

Findings of the present study support the argument regarding features of innovation leadership reported by employees under transactional leadership guidance. There was an absence of several qualities of innovative leadership in the transactional leadership practice: intuitive and creative action, multipossibility perspective, and use of collaborative inquiry and crafting. Regarding industry specifics, acting intuitively and holding multiple perspectives seem inappropriate for a profession that requires decisions based on numerical analysis and statistical estimates (ACCA, 2013). As for the reported absence of collaborative inquiry, the results indicate that employees of accounting firms might lack understanding of the concept.

Apart from these qualities of innovation leadership, transactional leadership demonstrated executed innovation to a certain extent. Infrequent innovative thinking, a characteristic of management-by-exception passive leadership, was reported in cases of leaders' interference when the problem became serious. This relationship seems explainable with low scores of MBEP, which indicates that innovative thinking produces the need for early problem resolution and fosters leaders' interference. Another manifestation of innovation in the investigated transactional leadership was abductive reasoning executed in cases of leadership awaiting problems before engaging in the process and taking action.

Forward thinking of innovation leadership took place under contingent reward leadership characterized by leaders' assistance provided in exchange for employee effort. The relationship illustrates the theoretical provision that innovative leaders focus on identifying and realizing their subordinates' potential by continuing to motivate and support them (Johnson, 2011). The innovation leadership quality of knowing a better way was revealed in management-by-exception active (MBEA) leadership in terms of managers' oversight of all mistakes and in MBEP in terms of failure to interfere until the problem was serious. In striving for personal and organizational excellence and success, innovative leaders keep track of all processes and activities to detect and intervene early to prevent negative consequences of a failure (Horth & Buchner, 2015).

The MBEP quality of withdrawing from interference until the problem becomes serious correlated with the characteristic of relished ambiguity of innovation leadership. Because of innovation leaders' focus on taking a broad multidimensional perspective of the issue, transactional leaders might take time to observe the situation and discover whether there was another nonstandard path for development of the situation (Johnson, 2011). Finally, the characteristic of meaning-oriented approach of innovation leadership was present in contingent reward leadership through assistance given in exchange for effort and MBEA through the focus on deviations from norms. In the context of industry specifics, accounting leaders apply innovation to promote meaning-based relations with employees, but require employees' adherence to professional principles, norms, and standards (Barnes et al., 2013).

The observed integration of meaning into fixed standard-based performance expectations was the innovation itself. Therefore, both leadership styles practiced in accounting firms in Massachusetts were innovative with the transactional mode

lacking some innovation qualities and the transformational approach lacking other ones. On this basis, it is reasonable to suggest a combination of two leadership paradigms to achieve maximum innovation in the organization.

#### **Hypothesis 4: Impact of Innovation on Employee Performance**

The first three hypothesized relationships of transformational and transactional leadership styles with organizational performance and innovation evoked a belief that innovative skills and competencies developed under forward-looking leadership contribute to organizational productivity and efficiency. This assumption also stemmed from the relevant scholarly literature clarifying the benefits of innovativeness to organizational performance and growth (Kim et al., 2012). Creative, positive, and flexible innovation leadership contributes to employee job satisfaction, motivation, commitment, and engagement, which are strong predictors of positive organizational performance. Leadership-provoked improvements in employee productivity and performance are frequently a result of new practices, measures, or tools initiated in and integrated into the organizational process (Johnson, 2011).

These employee- or leader-initiated solutions are a product of organizational creativity, knowledge sharing, and innovativeness. Facing the need to plan, operate, and supervise in ever-changing and unpredictable market circumstances, modern leaders need a climate of innovation within their organizations or business units. Business sustainability and organizational health rely on innovative systems, structures, and thinking (Horth & Buchner, 2015). Hence, innovation brings a range of benefits to organizational performance. First, innovation enables employees to apply their creativity and skills of critical thinking to deliver solutions and improvement initiatives. Engaging in innovation increases employee job satisfaction

and optimizes organizational processes while mitigating flaws (Murgatroyd & Simpson, 2012).

Second, innovation allows an organization to enjoy sustainable development aligned with changes in global markets and the industry. In this domain, lack of innovation is likely to lead a company to the position of outsider, which is associated with ineffective resource allocation or irrelevant production (Murgatroyd & Simpson, 2012). Third, innovation serves to define mechanisms and design processes for bringing new services and products to the market more quickly and economically. Innovation itself does not produce new goods or services; rather, it drives research aimed at innovative performance. Fourth, innovation is a means of continuing process optimization and organizational restructuring in response to ever-changing industry trends and market demands (Murgatroyd & Simpson, 2012). In summary, innovation addresses both organizational design through strategy, vision, shared values, structure, systems, as well as skills and production of goods and services.

The skills of innovative thinking are beneficial to the organization; they improve employee performance and engagement in organizational growth and development. The mediating effects of employee motivation, satisfaction, and commitment connect innovation and organizational performance (Horth & Buchner, 2015). Based on this connection, it was hypothesized in the present study that employee performance in accounting business depends on innovation within organization.

Utilizing the MLQ to test the association between innovation and employee performance, the focus was on several performance dimensions: extra effort, commitment, motivation, and satisfaction. With the exception of extra effort, all of the domains of employee performance were reported as occurring frequently.

Precisely, firm-inspired commitment to do one's best at work received the most appreciation among the surveyed employees. Reflections of employee commitment were another regular practice. Within the domain of motivation, participants prioritized the idea of the challenging nature of their work, while the practiced leadership skill of addressing individual employees was a driver for satisfaction.

Although commitment, motivation, and satisfaction were highly reported among the study participants, there was a weak connection between innovation and performance. In particular, there were only a few correlations between innovative leadership competencies and extra effort and motivation of employees. The innovation quality of a leader always knowing the existence of a better way evoked employee extra effort in terms of doing more than expected under the leader's influence. Innovative thinking correlated with employees' extra effort strengthening employees' desire to succeed. Also, innovative thinking was found to have a connection with employee motivation to face challenges of the job. These findings were unexpected because the prevailing scholarly position argued a positive impact of innovation and innovative leadership on employee performance and organizational growth (Murgatroyd & Simpson, 2012).

Furthermore, guidelines for the strategic development of accounting firms outline the need for a new generation of leaders capable of aligning innovative thinking with professional principles and standards to provide efficient solutions and service to the ever-changing market (ACCA, 2013). However, these professional guidelines neglect the need for educating employees to nurture innovation competencies and skills inherent in contemporary leadership. Hence, it is possible to conclude that employees of the examined accounting firms simply lacked

understanding of the innovation leadership concept, which explained their low reports of these qualities in their managers.

### **Hypothesis 5: Transformational/Transactional Leadership, Innovation, and Overall Organizational Success**

Previous studies in the field of organizational leadership, innovation, and organizational performance illustrated the indirect relationship between leadership and performance. In particular, Hargis et al. (2011) claimed that in striving for excellence, transformational and transactional leaders prioritized knowledge acquisition and employee professional development as the key drivers to their productivity and success. Jimenez-Jimenez and Sanz-Valle (2011) and Zaied, Louati, and Affes (2015) cited evidence to the correlation of organizational learning and innovation with business performance. In reference to both arguments, it was hypothesized that transformational and transactional leadership styles practiced in accounting firms leads to organizational success through increased innovation.

Based on answers to open-ended questions posed in the concluding section of the survey, the present study revealed a strong connection between organizational leadership and business successes. Precisely, proactive, meaning-oriented leaders dedicated to set a shared vision and to establish individual benefits from achieving organizational targets were reported as successful team drivers. This finding is consistent with findings reported by Jyoti (2013) and F. Ahmad et al. (2014), who asserted the need for visionary leaders to guide and supervise every employee toward fulfillment of common objectives. As outlined by Hargis et al. (2011), both transformational and transactional leaders can generate a sense of purpose, to identify and observe compliance with standards, and to exercise continual monitoring for organizational processes and activities to detect failure early and to initiate a quick,

efficient response. Despite differences in leaders' involvement in organizational performance, transactional leaders, like their transformational counterparts, are ready to provide assistance and guidance in solving problems and issues as they arise. As a result, employees feel supported, which increases employee motivation and commitment to contribute to business success by applying extra effort (Kalin, 2015; Katou, 2015).

In the context of the almost-absent management-by-exception passive form of transactional leadership, the majority of participants reported their managers as reasonable and accountable for the entire working process by managing planning, execution, and intervention in problems as they arise. The study revealed that proactive leadership engagement boosted employee commitment and performance because of the belief in the reputation of the firm and capability of the firm to fulfill its obligations to clients, shareholders, and fellow employees (Pantaleon, 2015).

Similar to arguments made by García-Morales et al. (2008), this study revealed the contribution made by proactive leadership and innovation to organizational performance and business success. As indicated by employees of several large accounting firms in Massachusetts, innovation-driven leaders are efficient in formulating achievable business strategies and establishing organizational goals aligned with employee individual values and objectives. By highlighting employee benefits resulting from meeting organizational targets, leaders boost their organizational commitment, effort, and motivations, thereby ensuring business success and growth. Further, innovation equips leaders with a broad perspective on the working process and firm development (Kim et al., 2012).

Holding multiple possibilities, innovation leaders enjoy the perspective of initiating new processes and structures and introducing new practices aimed at

enhancing overall performance of the organization, ensuring client satisfaction, and expanding the client portfolio. Therefore, innovation-based leadership moves a firm toward sustainable development in the content of continuing to embrace market changes to maintain its competitive advantage (García-Morales et al., 2008). Both leadership styles, combined with innovative thinking, force managers to set up clear targets and distribute responsibilities among the team to assign every employee a specific task (Kalin, 2015). The approach allows everyone to contribute to the overall business success, while eliminating work gaps or overlaps. In an industry that is highly dependent on numbers and statistical calculations, the field of accounting leaves little room for innovation.

As pointed out by study participants, accounting firm employees' daily routine requires accuracy and compliance with professional protocols, policies, and principles. However, employees admitted that efficacy of innovative management and nonstandard solutions to traditional administrative functions. The argument is consistent with management guidelines defined by accounting authorities, who emphasize the importance of adopting multiple perspectives, collaborative inquiry, and innovative thinking for modern accounting leadership (ACCA, 2013). In other words, in the field of accounting, , organizational innovation is subject to leaders and managers rather than employees occupied with standardized accounting processes and procedures.

Despite the limited role of innovation in accounting firms, study participants emphasized specific areas that require strategic leadership and innovation to increase organizational performance. According to participants' viewpoints, recruitment and staffing procedures should be more innovative and flexible to increase motivation and energy of new hires to engage in work and to contribute to the success of the firm.



This argument is another piece of evidence of the value of innovation-driven leadership in organizational management and performance (Overstreet, 2012; Pantaleon, 2015).

Another benefit from innovation leadership reported by study participants is leadership collaboration with the staff. Typically, managers of accounting firms assign tasks and responsibilities to their subordinates and oversee their work by monitoring and tracking for compliance with standards and norms (Kalin, 2015). However, each individual employee may experience particular professional or personal challenges. Thus, individual consideration inherent to strategic leadership and innovation seems a valuable predictor of success and continuing growth of the organization (Horth & Buchner, 2015).

While discussing results of testing Hypothesis 4, the suggestion was made that poor leadership innovativeness, as reported by participants, might have been a product of employees' unawareness of the concept. Answers to open-ended survey questions supported the notion that most of the employees had little or no knowledge about innovation, innovation competencies, or innovation skills. Apart from a leadership focus on innovation, as outlined by ACCA (2013) requirements, accounting employees require innovation supportive organizational cultures to understand and accept its manifestations.

Relying on findings from literature and the results of testing others' hypotheses, the results indicate the need to build the proper climate for innovation in accounting with a focus on ambiguity. Under the practiced decision-making process in the industry, there is no room for ambiguity and multiple possibilities. However, in the context of the modern world characterized by changes in traditional concepts, beliefs, and norms, ambiguity seems a suitable instrument for sustainable leadership (Horth &

Buchner, 2015). By accepting a different view of problems and ideas generated by employees, future accounting leaders seem capable of shaping their firms into highly dynamic, innovative, and competitive ones.

To address this possibility, hypotheses were tested relating to associations between transformational/transactional leadership, innovation, employee performance, and organizational performance. Although the research proved all the suggested correlations, some revealed inconsistencies or weaknesses allow attributing them to the industry specifics. In other words, innovation and strategic leadership as the key drivers to organizational success and business growth require alignment and continuing adherence to professional standards, procedures, and principles to accuracy of data collected and analyzed. While administrative and leadership functions are likely to benefit from innovation in terms of the enhanced organizational performance, employees' daily routines require oversight and compliance with the established norms.

### **Implications of the Study Findings**

Findings resulting from tests of the hypotheses have implications for both leadership research and leadership practices in accounting firms. First, it is essential to discuss theoretical implications of this study; this research used a compound survey form that included not only a classical MLQ form, but also nine questions on innovation and four open-ended questions about the relationship of leadership, innovation, and organizational success in firms. The survey generally accomplished its aim and successfully measured both MLQ items such as transactional leadership traits, transformational leadership traits, and employee performance, and as well as evaluated other issues of interest. The first two hypotheses related to identification of the impact of both transactional and transformational leadership behaviors on

employee performance, which is a standard object of interest in research related to the MLQ. The strong link between both types of leadership and organizational performance was proved, which also falls within the scope of traditional leadership research.

However, studying the relationship of these leadership styles and innovation, as well as employee performance and innovation, is a new component of MLQ-related research, so the findings of research are innovative in this research field. Although the relationship of leadership with innovation and performance with innovation was weak, inferential analysis revealed significant correlations. Consequently, these findings the validity of studying these aspects in conjunction; the survey results revealed leadership styles and behaviors serve as links across many levels of analysis of business functioning. A similar opinion was earlier supported by Sparrow, Shipton, Budhwar, and Brown (2015) expressed similar sentiments, who noting that transformational leaders and those who share and pro-knowledge sharing leaders could shape innovative development inside their companies.

Similarly, Birchall et al. (2004) pointed out that success of innovation initiatives is predetermined by having a leader and a team with an ability to transform ideas into reality. The leader's ability to produce a direct impact on organizational performance and success of innovation lies within his or her ability to place the right people with the right skills in the right position at the right time. Hence, analysis of leadership, employee performance, and innovation deserves research in combination to maximize understanding of impact mechanisms and interconnections between leadership performance within an organization, reactions of staff embodied in employee performance, and the overall outcome of those dynamics on success of innovation in a firm.

Besides the theoretical sound and valid connection between the aspects of innovation, leadership, and employee performance, this study pointed to practical implications. First, a notable implication is the high ranking of transactional and transformational leadership behaviors and approaches by the majority of study participants. The lowest means were approximately 2.90, with the highest possible mean of 4.00, while the dominant majority of means exceeded 3.00. These statistics imply that more than 75% of the sample assessed the presence of specific leadership characteristics in their leaders either often or almost always. The only exception was observed for passive management by exception, which is a hallmark of a counterproductive avoidant leadership style. Hence, low means for MBEP also reaffirm the initial observation—leaders in the surveyed firms (in their majority) are effective transactional and transformational leaders.

However, alongside the even and stable high ranking of transactional and transformational leadership characteristics, ranking innovation leadership was surprisingly low. Low assessment was observed on all innovation behaviors and approaches without exception, which is contradictory, given the close, direct relationship between transformation leadership and innovation. This assessment might be explained in two ways. First, employees of surveyed accounting firms might simply lack knowledge about innovation behaviors and their leaders' approaches. While questions on the MLQ are designed in such a way that an employee does not need any specialized knowledge and is requested only to share his or her experiences and observations of leaders' behaviors, innovation questions require some specialized knowledge (e.g., understanding of what is abductive reasoning, what is collaborative inquiry and crafting, and so on). Second, the limitation of employees' knowledge on innovativeness of leaders' behaviors may

come from the invisibility of leaders' innovative leadership actions in isolation from their subordinates. Leaders might implement their innovative approaches in communication with clients and shareholders, or simply plan strategically with implementation of innovative thinking, while employees see only the results of those actions and cannot assess the process of innovation.

Another explanation of the low ranking of innovation approaches by leaders of accounting firms is that innovation occurs at a low level in this field of business, or at least in the surveyed sample. This explanation might be valid with regard to the specifics of accounting firms with low tolerance to ambiguity, with high level of rigidity of norms and practices, and in a climate of work that is not conducive to creativity and innovation. The first and the most evident explanation to this issue is low buy-in of innovation among accounting firms. As an industry, accounting is conservative, with little change in practices and standards observed within the past 50 years. Only legislative innovations and changes in regulation compel accounting firms to change and adapt, while broader acceptance of innovation might make accounting firms more dynamic, flexible, and responsive to change permanently, rather than only as a response to changes in the regulatory environment.

Further, while innovation is low and poorly understood in the field of accounting, it is still evident (especially from qualitative analysis) that employees want innovation and are ready to embrace it. Some participants asked for innovation in staffing practices, while others saw the need to innovate internal practices. Technology innovation and improvement of technology competencies are also imperative in the contemporary accounting environment, which is also a potentially advantageous change promising large-scale innovations and business process optimization. Innovation comes in many forms and concerns various aspects of firm

performance, but one thing stands out as the most important—innovative leaders are the primary change agents and most important players in the firm who may promote and instill the change and innovation among staff, making it a part of the organizational culture.

Consequently, the implications of this study may be summarized as follows:

1. Transactional and transformational leadership qualities of the leaders of surveyed accounting firms are strong and developed.
2. Employees of surveyed accounting firms lack basic understanding and experience with innovation behaviors and approaches.
3. Innovation is still at the germinal stage of development and implementation in accounting firms.
4. Innovation is needed for accounting firms to remain competitive and develop.
5. Innovation may be achieved through adoption of new approaches to managing customer relations, introduction of new technologies, service line innovation, product innovation, and innovation of organizational culture.

### **Limitations of the Study**

This section acknowledges and offers discussion of limitations of the study, pointing the way to suggestions for future studies. The most critical limitation of this study was the selection of a mixed method research design. Mixed method research, which is composed of both qualitative and quantitative components, is traditionally viewed as a useful means to avoid the limitations of single method designs and thus is expected to yield more accurate and holistic findings (Pedro, 2012). Despite this benefit, this research design has certain limitations.

First, the mixed method research design must apply both qualitative and quantitative designs, which have their individual complexities and may contribute to

the redundancy and discrepancy of collected data. Evidence suggests that empirical studies that combine redundant measurements using radically different approaches may be both a valuable contribution and a failure, depending on the quality and reliability of work conducted (Evans, Hardy, & Shaw, 2010). Ideally, to generate reliable results, researchers should learn multiple methods to combine them knowledgeably, justify the use of multiple methods, and utilize them professionally (Caruth, 2013). In the present study, data of different natures (survey and interviews) were incorporated, which created a challenge of unifying qualitative and quantitative data in one data set for analysis. It was also challenging to combine and use different methods to obtain necessary data for analysis.

Hall (2008) added that because the mixed methods design tends to be expensive and time-consuming to conduct, researchers often sacrifice rigor to collect the data required for the study. As a result, it may be challenging to balance rigor against the usefulness of collecting reliable data on the topic. Caruth (2013) argued the ethical considerations pertaining to the qualitative and quantitative methods also pertain to the mixed research design because mixed method design is a combination of the two designs. As a result, the problem of managing different ethical problems emerged because the study required protecting anonymity, obtaining permission, and communicating the purpose, while simultaneously respecting the study population, avoiding deceptive practices, and responding to potential power concerns (Caruth, 2013).

The second important limitation of the study is the small study setting, which potentially reduced the generalizability of the results to other populations (Tetteh & Uzochukwu, 2014). Participants were only in one state (Massachusetts), which means the findings may be not generalizable to the United States as a whole. Due to limited

resources of both time and finances, the author did not include other U.S. states in the study sample. As a result, it must be assumed that the results may not be applicable to other states, where the quality of leadership training is different from that in Massachusetts.

In addition, it is not known how the results can be generalized to different types of organizational settings. The current research only involved large accounting firms, although there are many other business organizations that may demonstrate different results due to a difference in their environment (Paracha, Qamar, Mirza, Hassan, & Waqas, 2012). Moreover, because the mixed method research design was used in this study, vast amounts of qualitative and quantitative data were collected and analyzed. Increasing the sample size would not be feasible in this particular situation because it would increase the time spent on interviews with participants and analysis of collected data (Boswell & Cannon, 2012).

Another limitation of this study stems from self-reported data, which may have been distorted or incomplete. Some of the participants may have misunderstood the survey questions or answered the question with bias (Miles, 2011). The problem is that leadership is an elusive concept that is difficult to assess objectively and conclusively. As a result, unconscious emotional responses to leadership were analyzed, which may vary significantly depending on participants' personality, experience, and relationships with colleagues (Zembylas & Schutz, 2016). In addition, not all employees may have been knowledgeable about all aspects of leadership, organizational performance, and success, so their self-reported data may not reveal the true impact of leadership styles on them. Moreover, despite confidentiality policy, some participants may have been hesitant to speak openly because of the perceived pressure in their organizations. Finally, much of the



information reflects the recollection of past events and experiences and is therefore subject to problems inherent to memory, such as attribution, telescoping, and exaggeration (Stillman, Johanson, & French, 2009).

The last limitation that could potentially decrease the validity and reliability of the findings stems from measurement of leadership styles. Leadership is an elusive, complex phenomenon that might escape measurement via a survey. There is no universal, perfectly accurate leadership assessment tool that could objectively assess employees' reactions to leadership and overall success of the selected leadership style (Andersen & Mayes, 2014). As a result, researchers tend to select tools and assessment criteria most appropriate to their research design and sample size. Thus, for example, Bass and Avolio's MLQ 5X (short) is the most popular tool employed to measure the success of leadership styles and employees' satisfaction with their leader (Shrestha, 2012). Less famous are the Inventory of Leadership Styles (Passmore, 2010), the Educational Leadership Toolkit, and Leadership Self-Assessment Tool (Hester, 2003).

All these tools employ different criteria for leadership measurement, which means that studies using different tools may generate completely different results. For example, the list of leadership assessment criteria might include assessing organizational performance, employee satisfaction, and the level of innovation. It would be practically impossible to incorporate all these measurement criteria in a single study, which is why only some of them have been used to avoid varying perspectives. Considering these limitations, the current study provides some guidance for carrying out future research to assess and study the impact of different leadership styles on innovation.

## Recommendations for Future Research

Based on the limitations identified in the previous section, recommendations for future research are provided. Specifically, it would be useful to collect and compare survey and interview data in several U.S. states (preferably, from different parts of the country) to make the results more reliable. In addition, future studies could incorporate data from different organizational settings (e.g., small versus large, private versus public, and so on) to understand how leadership styles work in different environments and with different objectives. These studies would also help scholars understand whether the success of leadership styles and approaches depends on a context and how accounting business organizations differ from other business settings. Future studies should commit more money and time to data collection from a larger sample size (Chhokar, Brodbeck, & House, 2013). Studies conducted by Datta (2015), Gumusluoglu and Ilsev (2009), Moynihan, Pandey, and Wright (2011) could serve as a guidance to collecting studies from larger samples; each of these studies involved a large sample size and elaborate argumentation.

Furthermore, as previously noted, the present study collected data only from employees. Therefore, the recommendation is to conduct a large-scale study that would compare surveys and interviews not only of employees (managers), but also of leaders to evaluate the impact of leaders' leadership styles on financial performance and organizational success. A study of this breadth would reduce the level of bias and provide more reliable and accurate data. Several previous studies followed this recommended data sampling. For example, Gumusluoglu and Ilsev (2009) collected data from 163 employees and their leaders in 43 Turkish software development companies to investigate the connection between transformational leadership style and levels of creativity and innovation.

Collecting data from both employees and their leaders helped Gumusluoglu and Ilsev to explore the problem from different perspectives and provide results that were more credible. Similarly, N. Iqbal, Anwar, and Haider (2015) incorporated data collected from CEOs and employees of a tractor factory with the primary objective of investigating the impact of leadership styles on employee performance. Wiza and Hlanganipai (2014) used stratified random sampling to divide 200 participants according to their positions (e.g., heads of school departments, senior lecturers and junior lecturers, and student assistants). Clearly, there are options for diversifying the sample size that could be incorporated in future research.

It is often argued that organizations should simultaneously consider financial and nonfinancial indices to evaluate performance (Wang, Chich-Jen, & Mei-Ling, 2010). Therefore, the recommendation is to conduct a longitudinal study that includes objective financial data of the firm. Such a study would allow a researcher to demonstrate how selection of a particular leadership style can affect key organizational performance indicators. For now, few studies have used this type of data to measure leadership success, with the majority of scholars preferring to use surveys and interviews of employees and leaders. One study that incorporated financial data was conducted by Cherian and Farouq (2013), who used selective historical financial data on 18 banks in the United Arab Emirate to find out whether leadership style can drive financial success. Yanney (2015) incorporated data on sales, profits before tax, and employment to explore the impact of leadership style on organizational performance.

Yanney also diversified the sample size by selecting both CEOs and senior managers, which helped to generate credible results. These studies may provide the important framework to structure further research in small business settings.

According to Avolio and Bass (2004), transformational leaders recognize their subordinates' needs and help them to develop into mature leaders. Therefore, the study could help the leaders of large accounting firms to instill leadership styles that allow leaders to relate to their subordinates in a way that helps to empower subordinates and develop their skills to face the challenges of their work.

Finally, the recommendation is to include the human dimension in the study. In other words, there is a need to explore the impact of leadership style on not only the performance of the firm, but also on employees' commitment, satisfaction, motivation, and so on. An abundant body of literature exists that demonstrates the crucial role human capital plays in ensuring organizational effectiveness and sustainable success. For example, Channar, Talreja, and Bai (2015) revealed the human capital development has a strong positive relation with employees' satisfaction, which in turn leads to improved organizational performance.

Along similar lines, Odhon'g and Omolo (2015) argued that the relationship between human capital development and stable organizational performance is statistically significant. N. Liu, Chou, and Wang's (2013) results supported these findings; the researchers found that organizational abilities to attract and retain talented and experienced employees are a key competence for successful companies. In addition, evidence indicates that employee commitment and satisfaction from the workplace environment may boost organizational performance, which proves the need to understand the connection between human resources, leadership styles, and organizational innovation and success (Ahmad, Qasim, Mushtaq, Ferdoos, & Naeem, 2013; Mafini & Pooe, 2013). Thus, future research should place more emphasis on studying the link between leadership styles, human capital variables, and organizational performance.

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## Appendix A

### Survey

#### SECTION 1 MLQ

Please rate your answers below in correspondence with the following

meanings:

0 = Not at all

3 = Fairly often

1 = Once in a while

4 = Frequently, if not always

2 = Sometimes

*How frequently does your leader do the following?*

		0	1	2	3	4
1.	Provides me with assistance in exchange for my efforts					
2.	Re-examines critical assumptions to question whether they are appropriate					
3.	Fails to interfere until problems become serious					
4.	Focuses attention on irregularities, mistakes, exceptions, and deviations from standards					
5.	Talks about his/her most important values and beliefs					



6.	Seeks differing perspectives when solving problems talks optimistically about the future					
7.	Talks optimistically about the future					
8.	Instills pride in me for being associated with him/her					
9.	Discusses in specific terms who is responsible for achieving performance targets					
10.	Waits for things to go wrong before taking action					
11.	Talks enthusiastically about what needs to be accomplished					
12.	Specifies the importance of having a strong sense of purpose					
13.	Spends time teaching and coaching					
14.	Makes clear what one can expect to receive when performance goals are achieved					

15.	Shows that he/she is a firm believer in “If it ain’t broke, don’t fix it”					
16.	Goes beyond self-interest for the good of the group					
17.	Treats me as an individual rather than just as a member of the group					
18.	Acts in ways that build my respect					
19.	Concentrates his/her full attention on dealing with mistakes, complaints, and failures					
20.	Considers the moral and ethical consequences of decisions					
21.	Keeps track of all mistakes					
22.	Articulates a compelling vision of the future					
23.	Directs my attention toward failures to meet standards					

24.	Considers me as having different needs, abilities, and aspirations from others					
25.	Gets me to look at problems from many different angles					
26.	Helps me develop my strengths					
27.	Suggests new ways of looking at how to complete assignments					
28.	Emphasizes the importance of having a collective sense of mission					
29.	Expresses satisfaction when I meet expectations					
30.	Expresses confidence that goals will be achieved					
31.	Gets me to do more than I expected to do					
32.	Heightens my desire to succeed					
33.	Increases my willingness to try harder					

## SECTION 2 COMMITMENT

Please respond to the questions below by selecting the most appropriate

variant:

0 = strongly disagree

3 = partly agree

1 = disagree

4 = strongly agree

2 = neutral

		0	1	2	3	4
34.	I tell my friends that this is a good firm to work in					
35.	My values correspond to my firm's values					
36.	This firm inspires me to do my best when I am at work					

## SECTION 3 MOTIVATION

Please rate your answers below in correspondence with the following

meanings:

0 = Never

3 = Yes, sometimes

1 = Almost never

4 = Yes, often

2 = I don't know

		0	1	2	3	4
37.	Do you feel motivated in your job at the moment?					

38.	Do you think your job is challenging?					
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#### SECTION 4 SATISFACTION

Please rate your answers below in correspondence with the following

meanings:

0 = Not at all

3 = Fairly often

1 = Once in a while

4 = Frequently, if not always

2 = Sometimes

*How frequently does your leader do the following?*

		0	1	2	3	4
39.	Uses methods of leadership that are satisfying					
40.	Works with me in a satisfactory way					

## SECTION 4 LEADERSHIP INNOVATION

Please respond to the questions below by selecting the most appropriate

variant:

0 = Not at all

3 = Fairly often

1 = Once in a while

4 = Frequently, if not always

2 = Sometimes

*How frequently does your leader do the following?*

		0	1	2	3	4
41.	Involves innovative thinking in problem resolution					
42.	Acts intuitively and creatively in problem-solving and decision-making					
43.	Uses abductive reasoning					
44.	Acts without being constrained by the past (forward-thinking)					
45.	Holds multiple possibilities					
46.	Knows that there is always a better way					
47.	Relishes ambiguity					

48.	Wants meaning more than results					
49.	Uses collaborative inquiry and crafting in analysis of business thinking					





**SECTION 6 IMPACTS OF LEADERSHIP AND INNOVATION ON  
ORGANIZATIONAL SUCCESS**

Please give open-ended responses to the following questions:

55. Do you believe your firm is successful? If yes, do you attribute that success to your leader's efforts?

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56. Do you consider leadership and innovation play a role in organizational success? In which way do they contribute?

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57. Do you see evident features of innovativeness in your leader's efforts? Which ones?

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58. Which barriers to success does your firm face in terms of leadership and innovation? In which ways do you think they may be resolved?

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