



Impact of Leadership Styles on Organizational Performance

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Received date: 4 June 2018; Accepted date: 16 July 2018; Published date: 18 October 2018

Academic Editor: Muhammad Hasmi Abu Hassan Asaari

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Abstract

Leadership is one of the key determinants associated with the success and failure of any organization. Leadership style is the manner in which people are directed and motivated by a leader to achieve organizational goals. This study examines the impact of leadership styles on the organizational performance. The focus was on six major leadership styles -transformational, transactional, autocratic, charismatic, bureaucratic and democratic. This study has provided deep insights about the leadership styles; the democratic, transformational, bureaucratic and autocratic leaderships have a positive impact on the organizational performance, however, the charismatic and transactional leaderships have negative impact on the organizational performance, as it does not provide opportunities and freedom to employees. In this study, both primary and secondary research has been conducted. The primary research has been done using the quantitative approach, with the help of survey instrument, based on a survey questionnaire. The secondary research has been done through the review of previously established literature for achieving the research objectives. The findings suggested that charismatic, bureaucratic and transactional leadership styles have negative relationship with organizational performance. Transformational, autocratic, and democratic leadership styles, on the other hand, had a positive relationship with the organizational performance. It has been recommended that organizations use the leadership style that enhances the capabilities and abilities of the people.

Keywords: Organizational performance, Transformational, Transactional, Autocratic, Bureaucratic, Charismatic, Democratic, Leadership Style.

Introduction

The role of leadership in an organization is crucial in terms of creating a vision, mission, determination and establishment of objectives, designing strategies, policies, and methods to achieve the organizational objectives effectively and efficiently along with directing and coordinating the efforts and organizational activities (Xu & Wang, 2008). Top quality leadership is essential to achieve the mission and vision along with coping with the changes occurring in the external environment (Harris, et al., 2007). In current time, many companies are facing problems related to unethical practices, high labor turnover, poor financial performance, etc. This may be due to the lack of effective leadership. The main aim of many companies is to accomplish its stated objectives; hence, there is a need of effective leaders for coordinating and motivating the employees (Vigoda-Gadot, 2012). Unfortunately, some companies do not take account of the leadership style adopted by their managers. Based on this premise, the present study aims to explore the relationship between leadership style and organizational performance. There are several types of leadership styles such as transformational leadership, transactional leadership, autocratic, democratic leadership, participative leadership style, etc. The leadership styles chosen for the study are charismatic, transformational, transactional, autocratic, bureaucratic, and democratic. The reason behind choosing these leadership styles is the fact that they are the most practiced leadership styles throughout the globe, and if any new ideology is developed through the research, it can improve these leadership styles further and bring further success to organizations. Therefore, the survey was designed to focus on these six leadership styles only.

The main objective of this research is “to determine the impact of autocratic leadership style, democratic leadership style,

transactional leadership style, transformational leadership style, charismatic leadership style and bureaucratic leadership style on the organizational performance”. In order to determine the impact of the leadership style on organizational performance, the research hypothesis was formulated. The hypothesis stated that:

Ho: Leadership style dimensions have a significant impact on the organizational performance.

Literature Review

Leadership style

Leadership style is viewed as a combination of different characteristics, traits and behaviors that are used by leaders for interacting with their subordinates. (Mitonga-Monga & Coetzee, 2012). Mitonga-Monga and Coetzee (2012) consider leadership as the pattern associated with managerial behavior, which is designed to integrate the organizational or personal interest and effects for achieving particular objectives.

Harris et al (2007) also postulated that leadership style can be defined as the kind of relationship that is used by an individual so as to make people work together for a common goal or objective. According to modern leadership styles, leadership styles can be categorized as follows: (1) transformational leadership style, (2) transactional leadership style, (3) culture-based leadership, (4) charismatic leadership, and (5) visionary leadership (Harris, et al., 2007).

Organizational Performance

Organizational Performance is a complex and multidimensional phenomenon in the business literature. Organizational

performance comprises of the results of an organization or the actual outputs of an organization, which can be measured against intended outputs, goals and objectives. The organizational performance involves three areas associated with the organization – financial performance (return on investments, profits etc.), shareholder return (economic value added, total shareholder etc.) and the product/service market performance (market share, sales etc.) (Gavrea, et al., 2011).

Relationship between Leadership Styles and Organizational Performance

There is a considerable impact of the leadership styles on organizational performance. The leadership style influences the culture of the organization which, in turn, influences the organizational performance. Klien et al (2013) proved this fact by using four factor theory of leadership along with the data collected from 2,662 employees working in 311 organizations. The organizational culture and performance are related to the type of leadership style (Klein, et al., 2013).

Transformational leadership style and organizational performance

Transformational leadership style focuses on developing the followers and considering their needs. The managers that focus on transformational leadership focus particularly on developing the overall value system of the employees, development of moralities, skills and their motivation level. The transformational leadership acts as a strong bridge between the followers and leaders, to develop clear understanding associated with the motivational level, values and interests. Bass and Avolio (1994) stated that transformational leadership demonstrates the superior leadership performance. The transformational leadership, according to Bass and Avolio (1994), occurs when the leaders broaden or elevate the interest of the employees. The transformational leaders are the ones who

encourage the employees to look beyond their self-interest. The transformational leaders are effective because of several reasons such as the leaders may be charismatic in terms of inspiring the employees, the transformational leaders may meet the emotional need of the employees or they may stimulate the employees intellectually (Bass & Avolio, 1994). Wang et al (2011) found out that the transformational leadership and individual-level follower performance are positively linked. Further, the study also indicated that transformational leadership and performance of teams at organizational level are associated positively. Xu and Wang (2010) stated that performance is the function of skills, abilities, knowledge and motivation which is directed towards a prescribed behavior. The study conducted by the above mentioned authors indicated that transformational leadership enhances the overall development of the followers. The followers of transformational leadership associate with a self-defining and satisfying relationship with an individual or group. The idealized and behavioral charisma of the transformational leaders motivates the followers to identify with the leader (Jyoti & Bhau, 2015). The personalized relationship developed by a transformational leader develops an environment in which the employees feel happy and hence, their overall performance is improved. Hence, it can be said that transformational leadership and organizational performance are positively associated (Jyoti & Bhau, 2015). Sofi and Devanadhen (2015) stated that the transformational leadership has a significant impact on the performance of the organization. They conducted the research on the banking organizations with the help of statistical tools such as SEM and SPSS and reached to the above conclusion that transformational leadership has a direct positive impact on the organization's performance.

Charismatic leadership style and organizational performance

Charismatic leadership is considered to be one of the most successful leadership styles, where the charismatic leaders develop a vision and the followers are asked to follow and execute the vision. The charismatic leadership invites innovation and creativity and is considered to be motivational for the employees. But the major drawback of this style of leadership is that the followers are totally dependent on the leader and once the leader leaves the organization, they become direction-less. The problem worsens as charismatic leaders do not train their subordinates to act as their replacements in the future. This leadership style results in "happy followers, but few future leaders". Thus, it can have a long-term negative effect on the organizational performance (Germano, 2010). Ojukuku et al (2012) also stated similar results through their research. They conducted a quantitative research on the employees of twenty banks based in Nigeria through a survey questionnaire. The findings of their research suggested that the charismatic leadership bears a negative relationship with the organizational leadership. It does not motivate and induce the employees enough to retrieve the expected performances out of them (Ojukuku, et al., 2012).

Transactional leadership style and organizational performance

A leader is known as a transactional leader if he/she is always willing to give something in return (Uchenwamgbe, 2013). This can include a number of things like promotion, pay raise, performance reviews, new responsibilities etc. The major problem with this type of leadership is the expectation. Hence, transactional leadership can be defined as the exchange of targets and rewards between the management and the employees (Ojukuku, et al., 2012).

The study by Longe (2014) revealed that transactional leadership style has a positive impact on the organizational performance. The transactional leadership style helps in creating as well as sustaining the context in

which organizational and human capabilities are maximized as the employees are always able to achieve the tangible and intangible rewards. This leadership style particularly helps in creating an environment that is optimal for performance and also articulates the compelling vision that enhances the overall organizational performance (Longe, 2014). According to the research conducted by Sofi and Devanadhen (2015), transactional leadership was not found to have a direct impact on the performance of the organization. This leadership style does not encourage creativity and innovation among the employees and hence, the employees do not perform as per the expectations of the organization.

Democratic leadership and organizational performance

Tannenbanum and Schmidt (2012) have defined democratic leadership as the leadership in which the decision-making is decentralized and is shared by all the subordinates. In the democratic leadership style, the potential for weak execution and poor decision-making is high. However, the democratic leadership is also known to motivate the employees to perform better, as their views and opinions are valued. Another big problem associated with democratic leadership is the assumption that everyone involved has an equal stake in the decision-making with a shared level of expertise (Rukmani, et al., 2010).

The study by Elenkov (2002) indicated that the democratic leadership has a positive impact on organizational performance. The democratic leadership allows the employees to make decisions along with sharing them with the group and the manager. In this type of leadership style, praises and criticism are given objectively and a sense of responsibility is also developed among the employees (Elenkov, 2002). Bhargavi and Yaseen (2016) also analyzed the impact of democratic leadership on organizational performance. As per their findings, democratic leadership positively affects the

performance of the organization as it provides opportunities to the employees to express and implement their creative ideas and take part in the decision-making process. This leadership style also prepares future leaders and helps the organization in the long run. Choi (2007) also stated that a democratic leader is the one who focuses on the group discussion and group participation and as a result it positively influences the performance of the followers.

Therefore, the democratic leadership style can be used for improving the organizational performance as well as the efficiency. Hence, it can be stated that democratic leadership has a positive impact on the organizational performance. (Elenkov, 2002).

Autocratic Leadership and Organizational Performance

Autocratic leaders are classic and bossy in nature. The autocratic leaders want their subordinates to work according to them. Typically, autocratic leaders retain the decision-making rights with them (Obiwuru, et al., 2011). The autocratic leaders force their followers to execute the services and strategies according to the narrow way. Iqbal, Anwar, and Haider (2015) conducted a study to determine the impact of leadership styles on the organizational performance. The study stated that autocratic leadership is also known as the authoritarian leadership style. The autocratic leaders are less creative and only promote one-sided conversation. This severely affects the motivation and satisfaction level of the employees. The autocratic leadership style is however, known to be effective in the short term. Autocratic leadership restricts the workplace socialization and communication which is cordial for effective organizational performance. The autocratic leadership also leads to organizational conflicts which negatively affect the overall performance (Iqbal, et al., 2015). Bhargavi and Yaseen (2016) suggested that the autocratic leadership style has a positive impact on the organizational performance. This leadership

style is more suitable when the projects are to be completed within provided deadlines (Bhargavi & Yaseen, 2016). Igbaekemen and Odivwri (2015) also conducted a study on the impact of leadership styles on the performance of the organizations. The author stated that an autocratic leader is the one who determines the activities, techniques and policies to the employees and expects the employees to follow the same. In addition such leaders do not have much faith on their followers.

Bureaucratic leadership style and organizational performance

Bureaucratic leaders influence the people under them to follow the policies and procedures designed by them. The leaders are strongly committed to their processes and procedures but not to their people. This is the reason why they appear to be aloof. This method is not very effective as it does not lead to the development and motivation of the employees. These leaders just focus on their tasks being completed in a systematic manner (Germano, 2010). Ojukuku et al (2012) also stated that bureaucratic leadership has a negative impact on the organizational performance. According to them, bureaucratic leaders do not induce the employees of their organization to work in the expected manner which can lead to improved organizational performance (Ojukuku, et al., 2012). Sougui et al (2015) also presented similar results which stated that the bureaucratic leadership style does not impact the employee as well as organizational performance significantly. This method is beneficial only when the tasks are to be done in longer time following a mentioned procedure (Sougui, et al., 2015).

Methodology

In order to answer the research question, quantitative approach has been utilized in this study. There are 3 types of research approaches namely; qualitative, quantitative, and mixed approach (Creswell, 2014). According to Kumar (2005), when the goal of

study is to find the relationship among variables, quantitative approach is usually utilized. This study utilizes quantitative approach as the objective is to determine relationship between dependent variable organizational performance and independent variable leadership styles.

Sampling and Data Collection

Leadership scale for this research work was adopted from Zhu (2002). Organizational performance was measured using respondents' perception of their organization's performance in comparison to their competitors. The study was conducted on the employees of twenty randomly selected organizations. The data were collected using the survey questionnaires. All the required permissions were taken from the bank authorities for conducting the survey. After all the procedures, the questionnaires were distributed and the respondents had to fill them out. The responses of the respondents were measured using a five point Likert scale where the frequency performance was distributed into 5 levels "never", "little", "occasionally", "often" and "always".

Data Analysis

The reliability of the data was measured using Cronbach's Alpha reliability coefficient. The Cronbach's alpha coefficient values for charismatic leadership, bureaucratic leadership, transformational leadership, transactional leadership, democratic leadership and autocratic leadership were found to be 0.813, 0.780, 0.087, 0.790, 0.753, and 0.650 respectively. The impact of the leadership styles on their performances was measured using the organizational

performance scale. The scale compares the performance of the banks with their competitors. The reliability and credibility of the scale was checked using the item analysis and it yielded a reliability alpha value of 0.76, which is considered to be fairly reliable.

Results and Discussion

This section of the research has discussed the major findings that have been obtained from the secondary research. The results in the table show that there is both a positive and a negative relationship between the selected dimensions of leadership and organizational performance. Transactional leadership, Charismatic leadership, and bureaucratic leadership were found to have a negative relationship with the organizational performance with ($r = -0.174, -0.432, -0.292$; $P < 0.001$) respectively. This shows that these leadership styles do not induce the employees to perform better and stimulate high turnover intention. The leadership styles such as charismatic and bureaucratic leadership are good styles of leadership for short-term or small projects but as far as the long-term and future prospects are considered, they are not beneficial as they do not lead to employee development, and this does not bring out the expected performances from the employees. However, the democratic leadership, transformational leadership and autocratic leadership style have a positive relationship with the organizational performance with ($r = 0.156, 0.265, 0.064$; $P < 0.001$) respectively. This indicates that these three styles of leadership induce the employees to perform better and as per the level of expectations. These leadership styles must be promoted in the organizations.

Table 1: Pearson correlation: Relationship between leadership style dimensions and organizational performance

Variables	Mean	SD	1	2	3	4	5	6
Organizational performance	20.054	1.894	1.000					
Transactional leadership	3.123	1.143	-0.174**	1.000				
Transformational leadership	3.998	0.398	0.265**	0.123*	1.000			
Autocratic leadership	2.005	1.542	0.064**	-0.343	-0.165	1.000		
Democratic leadership	4.598	6.545	0.156**	-0.121	0.123	-0.092	1.000	
Charismatic leadership	3.732	1.285	-0.432**	0.234	-0.321	-0.031	-0.276	1.000
Bureaucratic leadership	2.454	0.756	-0.292*	0.265*	-0.299	0.312	-0.093	-0.171

Hypothesis Testing

Ho: Leadership style dimensions have a significant effect on the organizational performance.

The results show that transformational leadership, transactional leadership, democratic leadership and autocratic leadership styles predicted the organizational performance in a joint manner ($F(5, 42) = 2.542$; $R^2 = 0.252$; $P < 0.05$). The charismatic leadership ($\beta = -0.354$; $t = -2.432$; $P < 0.05$), transactional leadership ($\beta = -0.076$; $t = -0.272$; $P > 0.05$) and bureaucratic leadership ($\beta = -0.453$; $t = -2.143$; $P < 0.05$) have a negative effect on organizational

performance. The transformational leadership style ($\beta = 0.032$; $t = 0.276$; P), democratic leadership style ($\beta = 0.003$; $t = 0.09$; $P < 0.05$) were independent predictors of organizational performance. The results show that the organizational performance is influenced by the leadership styles. There are three leadership styles which were found to have a positive relationship with organizational performance- democratic leadership, transformational leadership and autocratic leadership style. The other three leadership styles namely democratic, transformational and autocratic, were found to have positive relationship with the organizational performance.

Table 2: Model summary^b

Model	R	R square	Adjusted R square	Std. Error of the Estimate	Durbin Watson
1	0.493 ^a	0.252	0.173	1.46543	1.031

a. Predictors: (Constant), democratic, autocratic, transactional, transformational, charismatic, bureaucratic

b. Dependent variable: orgp stands for organization performance

Table 3: ANOVA

Model	Sum of squares	Df	Mean square	F	Sig.
Regression	32.765	5	5.123	2.542	0.54a
Residual	109.876	59	2.152		
Total	142.987	64			

a. Predictors: (Constant), democratic, autocratic, transactional, transformational, charismatic, bureaucratic

b. Dependent variable: orgp stands for organization performance

Table 4: Coefficients^a

Model	Unstandardized coefficients B	Std. Error	Standardized coefficients Beta	t	Sig.
Constant	23.042	3.132		6.544	0.000
Transactional	-0.076	0.432	-0.421	-0.272	0.021
Transformational	0.123	0.465	0.032	0.276	0.041
Autocratic	0.076	0.191	0.041	0.581	0.521
Democratic	0.000	0.065	0.003	0.09	0.018
Charismatic	-0.354	0.174	-.391	-2.432	0.023
Bureaucratic	-.453	0.321	-.352	-2.143	0.029

The results prove that the leadership styles contribute effectively in determining the organizational performance. Therefore, **the hypothesis was tested to be true.**

The finds of this study are in line with previous research studies (Wang, et al., 2010; Obiwuru, et al., 2011). As per the literature review, transformational leadership helps in establishing a value system along with providing the employees an opportunity to develop their skills and abilities. The democratic leadership helps in improving the creativity and decision making skills of the employees. In the autocratic leadership, employees have to work or follow the orders given by the leader and this works in favor of the organization as per the survey. The charismatic leadership and bureaucratic leadership styles, on the other hand, were found to have a negative relationship with the organizational performance, which is

similar to the results indicated by the literature review. However, the literature review suggests that the transactional leadership also has a positive impact on organizational performance, which contradicts the results of the survey. This space can be further researched in the future by gathering more evidence.

Conclusion

This study has focused on the impact of leadership styles on organizational performance. The focus was on only six types of leadership styles- transformational, transactional, democratic, charismatic, bureaucratic, and autocratic. The transformational, autocratic and democratic leadership styles were found to have a positive influence on organizational performance, whereas, the transactional, charismatic and bureaucratic leadership

styles were found to have a negative impact on the organizational performance in the organizations taken for study. This study reveals that organizational performance is associated with the leadership style and they have both a positive and a negative impact on the performance. It is important for a leadership style to offer opportunities to employees, offer a sense of belonging along with allowing them to participate in the decision -making. In this context, it is recommended that organizations should focus on using the transformational and democratic leadership styles in the organizations so as to improve the organizational performance.

This study has provided deep insights of the impact of leadership styles on the organizational performance. It, however, has some limitations such as that only quantitative data has been used. This has significantly reduced the scope and applicability of the research. Therefore, the future researches should focus on using relevant research methods, along with qualitative methods, for determining the relationship between leadership style and organizational performance.

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