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ScienceDirect

Procedia - Social and Behavioral Sciences 230 (2016) 351 – 358

Procedia
Social and Behavioral Sciences

3rd International Conference on New Challenges in Management and Organization: Organization and Leadership, 2 May 2016, Dubai, UAE

Relationship between Leadership Styles and Organizational Performance by Considering Innovation in Manufacturing Companies of Guilan Province

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Abstract

The purpose of this research is to investigate the relationship between leadership styles (transformational and transactional styles) and organizational performance by considering innovation (exploratory and exploitative) in manufacturing companies of Guilan province. The present research is a descriptive study with an emphasis on the causal model in terms of execution and it is an applied research in terms of purpose. It is also a field research in terms of data collection. The statistical population of the research includes the manufacturing companies of Guilan province. The sample size was estimated to be 401 by using Cochran formula. Questionnaire was distributed among the managers of the manufacturing companies after confirming the validity and reliability of the research. In order to analyze the data and to test the hypotheses, the structural equation modeling was used by LISREL software. The test results show that there is a relationship between transformational leadership and exploratory innovation; but there is a negative relationship between transformational leadership and exploitative innovation. In addition, it was found that there is a negative relationship between transactional leadership and exploratory innovation and there is a relationship between transactional leadership and exploitative innovation.

Peer-review under responsibility of the Ardabil Industrial Management Institute

Keywords: Organizational performance, Exploratory Innovation, Exploitative Innovation, Transformational Leadership, Transactional Leadership

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Peer-review under responsibility of the Ardabil Industrial Management Institute
doi:10.1016/j.sbspro.2016.09.044

1. Introduction

Nowadays, development of manufacturing organizations is key to economic development in the next decade. Investigations show that manufacturing companies affect global economy through entrepreneurship and innovation. In addition, increased global competition has led to increased uncertainty and growing demand for diverse products. It issue has caused that greater attention to be paid to these organizations. Competition among producers will lead to increased quality of products and services to gain more share of market. These companies have skill to find opportunity, but their limited knowledge of their market share reduces their capability to exploit the opportunities that the company is looking for them. Nowadays, organizations cannot survive with same approach to innovation due to market competition, and they should find new opportunities to create new ideas. Therefore, manufacturing companies need to improve their performance continuously to survive and thrive in the competitive arena. Organizational performance has different meanings to different people; hence, there are uncertainties and conceptual difficulties in its measurement. The definition of organizational performance is relatively complicated for non-profit organizations (Winand, Rihoux, Qualizza, & Zintz, 2011). Organizational performance is "the ability to acquire and process human financial and physical resources properly to achieve goals of the organization” (Madella, Bayle, & Tome, 2005). In fact, organizational performance is the outcome of an organization so that it is measured based on its goals and objectives (Lee, 2008). Nowadays, due to increased competition among organizations as well as focus on organizational transformation and change, each organization wants to achieve effective performance. This issue has attracted the attention of researchers in the human sciences area, especially industrial and organizational psychologists. Understanding of issues related organizations leads to their higher efficiency and performance (Currie, Dingwall, Kitchener, & Waring, 2012). In a general definition of organizational performance, it is defined as a product of the interaction among various departments and sectors in the organization (Stankard, 2002). It covers both financial and non-financial dimensions (Ouekouak, Ouedraogo, & Mbengue, 2013). Fiscal scales are generally based on financial statements data (Hamdam, Pakdel, & Soheili, 2012). These criteria are more tangible and they include profit, profit growth rate, return on equity, return on sales, and return on assets.

However, Falshaw, Glaister, and Tatoglu (2006) claimed that the financial criteria of performance cover only one part of the organizational performance (Falshaw et al., 2006). This view was supported by Garg and Ma (2005), They advocated moving towards recognition of non-financial indicators or non-subjective measures such as customer satisfaction, employee satisfaction with payments, technology, and innovation. They also proposed alternative perspective for key behavior and performance supporting the positive financial performance. Current scales of financial performance are largely determined by financial efficiency and performance, usually with a management-oriented landscape. However, this approach ignores the role and involvement of employees to achieve organization's performance (Prowse & Prowse, 2010). They listed non-financial indicators as follows: first, user or beneficiary satisfaction with programs or services; second, increasing the number of exploiter users, and third, the quality of general program and services; and finally the effectiveness and implementation of general services and program (Hishamudin, Mohamad, Shuib, Mohamad, Mohd, & Roland, 2010). Non-financial indicators include quality of service, service user satisfaction, supplier satisfaction, voluntarily activities, and the general effectiveness of the programs (Mahmoud & Yusif, 2012). In the production cycle, eleven measures have been considered to construct performance measure, including inventory turns, equipment failure, timely delivery, waste products, reworking, frequencies of launching, labor productivity, operational time, the efficiency of the production cycle , vendor performance- quality of product, timely delivery – vendor performance (Ramezan, Sanjaghi, & Rahimian Kalateh Baly, 2013). Researchers have shown that sustainable organizational performance is rooted in the exploitation of existing capacities and examination of the new opportunities (Gibson & Birkinshaw, 2004; He & Wong, 2004).

The concepts of exploration and exploitation (Benner & Tushman, 2003) or exploratory innovation and exploitative innovation (Benner & Tushman, 2003) have been referred frequently in organizational learning, technological innovation and organizational adaptation issues (eg, Benner & Tushman, 2003; Holmqvist, 2004; Lee, Lee, & Lee, 2003). Organizations paying attention to exploratory innovation focus constantly on new knowledge and development of products and services for customers and emerging markets. On the other hand, organizations paying attention to exploitative innovation focus on existing knowledge resources and expansion of existing products and services in current markets (Jansen, Van den Bosch, & Volberda, 2006). Experimental studies have examined the