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Transformational Leadership and Organizational Innovation: The Moderating Effect of Emotional Intelligence

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Abstract: Transformational leadership has become the most affecting factor that influences organizational innovation since the last becomes the critical surviving elements in today business. Therefore, the main purpose of this study is to discuss the relationship between transformational leadership and organizational innovation and to present a proposed model of organizational innovation by viewing transformational leadership as having a direct effect on organizational innovation. Emotional intelligence has been proposed as a moderator in this relationship. This study reviews the literature of the transformational leadership, organizational innovation and emotional intelligence to support the proposed model. This study illustrates that transformational leaders with high emotional intelligence would heighten the organizational innovation.

Key words: Transformational leadership, emotional intelligence, organizational innovation, leaders, Malaysia

INTRODUCTION

In today's globalized world, business operation needs to cope with rapidly changing environments. Organizations are facing a vibrant unstable environment powered by the today advanced technology changes, short product life and of course globalization. To put it in a nutshell, globalization of economic environment and the increasing demand for varieties of product features, quality and services have pressured companies to change the way organizations function and respond. As a result, innovation effort is needed for organization to stay competitive in the industry and for innovation to take place. Likewise, Gumusluoglu and Ilsev (2009b) implies that innovation is the competitive weapon for organizations. Management guru, Peter Drucker succinctly proposed that innovation is the main competency that needs to be develop by every organization (Gaynor, 2002; McDermott and Sexton, 1998). In fact, organizational creativity and innovation are more important than before for survival, competition, growth and leadership to remain successful in the industry (Bass *et al*., 2003; Tierney *et al*., 1999). Therefore, organizational innovation is the creation of valuable and useful new products or services within an organizational context (Woodman *et al*., 1993).

Researchers have identified leadership as one of the most important factor that can influence employees for more creative behaviors and performance (Amabile, 1998; Jung, 2001; Mumford and Gustafson, 1988). According to Robbins and Judge (2010), organizations need strong leadership and strong management for optimal effectiveness. Leaders are needed to create visions of organization future to inspire employees within the organization and to challenge the status quo. Leadership style has been emphasized as one of the most important influences on firm innovation because leaders can decide directly to introduce new ideas into a technological organization, set specific goals and encourage innovation initiatives from subordinates (Kanter, 1983; Senge *et al*., 1994).

Transformational and transactional leadership are considered well known theories among the scholars. Since 1980's, transformational leadership have considered more effective leadership style than transactional leadership, it generates extra effort, commitment and satisfaction of the followers (Avolio and Bass, 2002). The present organizational focus is on revitalizing and transforming organizations to meet competitive challenges ahead has been accompanied by increasing interest among researchers in studying transformational leadership (Krishnan, 2005). Excellent transformational leaders use authority and power to inspire and motivate people to trust and follow their example (Tucker and Russell, 2004). When followers have developed trust and confidence in their leader and are in step with the organizational mission, they are more likely to achieve exceptional levels of performance (Bass, 1985). A number of studies have shown that transformational leadership positively influences organizational innovation (Jung *et al*., 2003;

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King and Anderson, 2002). Bass and Riggio (2006) implies that transformational components encourage followers to greater innovation and creativity. Existing studies reported positive influence of transformational leaders on innovation (Keller, 1992; Waldman and Atwater, 1994). According to Mumford *et al*. (2002) observation, the scarcity of literature on how transformational leadership style affects innovative organizational climate which further led to organizational innovation is surprising, although many argued that leadership is essential for innovation to happen. Recently, the need of leaders to possess emotional intelligence has been an arising topic in leadership literature regardless the model of leadership that being examined (Goleman, 1998c, 2000). It have been proved, based on empirical evidence that a leader should be sharp, more intelligent and emotionally mature (Sayeed and Shanker, 2009). For instance, the importance of emotional intelligence in leadership has been emphasized in the best-selling book The seven habits of highly effective people by Stephen Covey. Scholars and researchers have started to examine and investigate about the importance of emotional intelligence and effectiveness of leadership (Bass, 2002; Goleman, 1998c; Megerian and Sosik, 1997; Morris and Feldman, 1996; Rahim *et al*., 2002, 2006).

Goleman (1998a) claims that managers who do not develop their emotional intelligence facing difficulty in building good relationship with peers, subordinates and clients. Specifically, Bass and Avolio (1994) suggest that leaders who follow transformational leadership theories tend to emotionally engage the followers to gain performance that its beyond organizational expectation. In line with this, Johnson and Induik (1999) advocate that managers with high emotional intelligence can get results from employees that are beyond expectations.

The core of the argument underpinned that in order to be truly transformational, qualities of leadership needs to be grounded in high level of emotional intelligence. Therefore, the purpose of this study is to propose the linkage between transformational leadership and organizational innovation while emotional intelligence has been identified as the potential moderator in the relationship between transformational leadership and organizational innovation.

LITERATURE REVIEW

Organizational innovation: Innovation is the fuel for organizations in order of making them to compatible and allows them to meet any competitive challenges that they are facing every day. Technological organizations operating in this kind of a market environment have to be more creative and innovative in order to survive, to compete, to grow and to lead (Gumusluoglu and Ilsev, 2009a). Although there are many definitions for innovation in the literature, innovation can be defined as the successful implementation of creative ideas within an organization (Amabile, 1983, 1998; Amabile *et al*., 1996). Thus, creativity is at the individual level while innovation is at the organizational level (Oldham and Cummings, 1996). According to Woodman *et al*. (1993), organizational innovation is the creation of valuable and useful new products or services within an organizational context. It is the adoption of new inspiration that it is new within the organization (Jung *et al*., 2003). Organizational innovation is affected by the weight of different categories including the individual, organizational and environmental (Damanpour, 1991). If organizations want to be more accurate and precise in depict innovations as consisting of multiple aspect, they should adopt innovations continuously (Tan and Nasurdin, 2010).

Damanpour (1996) argued that innovation is a range of types, including new products and services, new process technologies, new organizational structure and administrative systems or new plans or programs pertaining to organizational members.

According to Chuang (2005), organizational innovation can be categorized into 3 types: product innovation, also known as product development is a systematic work process, drawing upon existing knowledge gained from research and practical experiences directed towards the production of new materials, products and devices including prototypes (Hage and Hollingsworth, 2000); process innovation defined as developing a new or substantially improved production process through new equipment or reengineering of operational process (Wong and He, 2003) and administrative process refers to performance derives from the changes in organizational structure and administrative process, reward and information system and it encompasses basic work activities within the organization that is directly related to management (Damanpour and Evan, 1984; Mavondo *et al*., 2005).

Damanpour (1991) and Mumford *et al*. (2002) have discussed about a large set of factors that have been identified as main attributes of creativity in the organization. This large set start from ones at individual level such as personality, technical knowledge, expertise, motives and the supervisor's feedback style to ones at the group level, such as task structure, communication types and task autonomy to organizational level factors, such as strategy, organizational structure, culture and climate and available resources (Jung *et al*., 2003). Although these factors considered unquestionably

appropriate but the increasing in the work and environment complexity rise up leadership as another important determinant for boosting the organizational innovation.

By defining the work contexts within which employees interact to define goals, problems and solutions, articulating a vision that emphasizes long term over short-term business outcomes and creating and sustaining an organizational climate and culture that nurtures creative efforts and facilitates diffusion of learning, organizational leaders can significantly affect employee creativity and organizational innovation in several different ways (Yukl, 2001).

Jung *et al.* (2003) clarify the reasons on why researchers have given the support that transformational leadership would enhance employee creativity and innovation:

- Transformational leaders will not only exchange contractual agreements for needed performance, they go beyond that as they hit the followers' value system to engage them with the organization. Transformational leaders will try to link followers identity to their organization, hence it will increase their intrinsic motivation rather than just extrinsic motivation only (Jung *et al*., 2003)
- Simplifying the importance for organization vision and mission, transformational leaders will boost their followers' perceptions of the importance and values associated with desired outcomes which will yield in improving their performance and increase the acceptance of fulfilling the organization need over their own
- Transformational leaders push the followers to have a wide broadly thinking in order to have more outstanding and creative thinking process thinking out of the box (Sosik *et al*., 1997)
- Transformational leaders motivate their followers to find new ways to solve old problems

Mumford *et al.* (2002) have argued that the use of a vision-based motivational process by transformational leaders should enhance creativity at the organizational level by framing vision in terms of work goals and articulating this vision through project selection and project evaluation rather than overt affective appeals, a work-focused vision or mission may be promulgated that will enhance people's creative efforts.

Transformational leadership theories focus is about boosting creativity level in employees, emotions and values. Employees should be considered the organization's most valuable resource, a resource for which the firm must take responsibility and whose professional development it must promote. Emotional connections established between followers and transformational leaders who acts to inspire higher values (Garcia-Morales *et al*., 2008). The next section will further discuss leadership, particularly transformational leadership.

LEADERSHIP

The study of leadership as an experimental social science and in organizational psychology through the literature has been moved from trait to situational theories up to their interaction in contingency theories (Bass, 1985). Reviewing the literature of leadership, several theories can be found including Trait Theory, Situational Leadership Theory, Contingency Theory and the Transformational-transactional Leadership Theory (Full Range Leadership Model). Leader sometime uses one leadership style to deal with one follower while he uses different leadership style with different follower.

Regarding the Full Range Leadership Model, this model have been constructed by Avolio (1999) and Bass and Avolio (1997). The Full Range Leadership Model as the name suggests, attempts to depict the whole range of leadership as it is conceptualized within style domains varying from non-leadership, otherwise known as laissez faire to transactional leadership which hinges on rewards and punishments to transformational leadership which is based upon attributed and behavioral charisma (Bass and Avolio, 1993a). The laissez-faire leader is essentially a non-leader, a manager of this type tends to withdraw from the leadership role and offer little in terms of either direction or support. They are often absent and followers tend to cover up the leaders' absence by taking over his role regarding dealing with day to day operations (Kirkbride, 2006). Transactional leadership which was developed by Burns (1978), depends on rewards and punishment system. Moreover, leaders who identified the needs of their followers and exchanged rewards for appropriate levels of effort and performance were viewed as transactional leaders. Put simply, transactional leadership encompasses fairly traditional managerial styles where managers or leaders gain compliance and performance by either offering rewards or punishing deviations from standards (Kirkbride, 2006).

As leaders are needed to create visions of organization future to inspire employees within the organization and to challenge the status quo hence the authors focus on transformational leadership in the present study.

Transformational leadership: Burns (1978) introduced both transactional and transformational theories. In his discussion, transformational leadership and transactional leadership are the same. The difference is in terms of what leader and follower can offer each other (Conger and Kanungo, 1998).

Bass (1985) did not agree with Burns arguments about being two ends of one rope. Bass argued that these two leadership styles are separate concepts. Burn's Theory was upgraded and developed by (Bass and Avolio, 1994). According to them, transformational leadership consists of four dimensions: charisma or idealized influence, inspirational motivation, intellectual stimulation and individualized consideration.

Idealized influence (charisma): Burns (1978) referred idealized influence as is the behavior that will make the leader to serve as role models for the followers. Such leaders are regarded as a role model either because they exhibit certain personal characteristics or charisma or because they demonstrate certain moral behaviors (Kirkbride, 2006). Charismatic leaders display conviction, take stands and appeal to followers on an emotional level (Judge and Piccolo, 2004). Followers will try to imitate the leader after they have identified the leaders; leaders are endowed by their followers as having extraordinary capabilities, persistence and determination (Bass and Riggio, 2006). Moreover, leaders of this style are mostly seen having high morality, trust, integrity, honesty and purpose. In addition, leaders who possess a high level of idealized influence are willing to take risks and are more consistent than arbitrary (Bass and Riggio, 2006). They are reliable and demonstrate high standards of ethics and moral conduct.

Inspirational motivation: Transformational leaders have the ability to inspire and motivate followers around them to achieve higher performance. Inspirational motivation refers to transformational leaders sharing a compelling vision/goal with their follower and constantly motivating them to reach for the goal while fueling up their confidence and reassuring that any obstacles they faced can be overcome (Bass and Avolio, 1994).

Leaders with inspirational motivation challenge followers with high standards, communicate optimism about future goal attainment and provide meaning for the task at hand (Judge and Piccolo, 2004). Idealized influence and inspirational motivation normally combined to form single factor of Charismatic Leadership Theory (Bass and Riggio, 2006) which is similar to Charismatic Leadership Behaviors Theory (Bass and Avolio, 1993b).

Intellectual stimulation: Transformational leader's intellectual stimulation means the awakening and the change in followers in terms of problem awareness and problem solving, thought and imagination and beliefs and values rather than awakening and change in immediate action (Bass, 1985). It is the degree to which the leader challenges assumptions, takes risks and solicits followers' ideas. Leaders with this trait stimulate and encourage creativity in their followers (Judge and Piccolo, 2004), try to boost followers' efforts to be innovative and creative by questioning assumptions, reframing problems and approaching old situations in new ways (Bass and Riggio, 2006). Followers will be encouraged to seek and try out new ideas and solutions and they are not afraid from being criticized because they differ from the leaders' ideas but tend to think outside of the box (Bass and Riggio, 2006). This kind of behavior usually observed in families, parents usually use this behavior with their kids but it is less frequent used by mangers in organization.

Individualized consideration: It is the degree where the leader gives attention and consideration to each of the followers needs. The individualized consideration leader will deal with followers as mentor or coach; he listens to their problems and concerns (Judge and Piccolo, 2004), demonstrates concern for their followers, treats them as individuals and gets to know them well (Kirkbride, 2006). A two way communication is encouraged and following up the followers needs is indeed supports the follower development. The result of such behavior and other transformational leadership behavior is empowering the follower (Behling and McFillen, 1996). Clearly, a one-to-one relationship between the leader and the follower will imply follower empowerment and better communication channels among the group members and between the leader and followers (Dionne *et al*., 2004).

Several studies have examined this relationship more directly and found positive results. Sosik *et al*. (1998) found that transformational leadership increased followers' creativity in a computer-mediated brainstorming exercise.

Keller (1992) also found that transformational leadership positively influenced performance of Research and Development (R&D) project teams in a large R&D organization. Mumford *et al*. (2002) have argued that the use of a vision-based motivational process by transformational leaders should enhance creativity at the organizational level. There is currently broad consensus that a collaborative and participative leadership style (transformational) is more likely to encourage innovation in the technological organization (Kanter, 1983) than transactional styles of leadership (Manz *et al*., 1989).

Transformational leaders are needed throughout the organization and they have a significant impact in any area. Transformational leaders provide new direction, new inspiration and new behaviors for their organization. Therefore, they are considered a crucial element for the organizational innovation development. To the knowledge and regardless of the expectation that transformational leadership will enhance organizational innovation, few research have been done investigating this link (Mumford *et al*., 2002). Hence, Proposition 1 states transformational leadership is positively related to organizational innovation.

Emotional intelligence: Emotional intelligence is an arising new interesting term. It was popularized by Goleman (1995) with his bestselling book Emotional Intelligence. The study on emotional intelligence was developed from the concept used by Gardner (1983) in his book Frames of the Mind: The Theory of Multiple Intelligence. Gardner concept of emotional intelligence refers to having the ability to know and understand one's emotions and other individual's emotions and intentions. Moreover, emotional intelligence as a term was introduced in his study and it was the fundamentals for the developing of emotional intelligence.

Emotional intelligence was presented and conceptualized by Salovey and Mayer (1990) and it was defined as, a form of social intelligence that involves the ability to monitor one's own and others' feelings and emotions to discriminate among them and to use this information to guide one's thinking and action. Mayer and Salovey (1993) and based on their arguments, they believed that individual differences in expressing and appraising individuals own emotions will make a difference in emotional intelligence within individuals. Based on Salovey and Mayer (1990) conceptualization construct, three different models have been proposed, ability models (Mayer and Salovey, 1997), non-cognitive model (Bar-On, 1997) and competency based models (Goleman, 2001).

Mayer and Salovey (1997) ability models defines emotional intelligence as a mental abilities to do with emotions and the processing of emotional information that a part of and contribute to logical thought and intelligence in general. These abilities are believed to develop within age and time and ranged from basic psychological processes to tend to be more complex. Bar-On (1997)'s definition of emotional intelligence in his non-cognitive model is an array of non-cognitive capabilities, competencies and skills that influence one's ability to succeed in coping with environmental demands and pressure. Hence, Bar-On (1977) argues that the components of this model can be developed and improved throughout life and proper training programs. Goleman (2001)'s Competency Model is more toward workplace environment and application. These competencies can distinguish individual differences in workplace performance and it's based on an emotional intelligence theory of performance.

In his book Emotional Intelligence, Goleman (1995) build up his approach depending on the basics and fundamentals that have been done by both Gardner (1983) and Salovey and Mayer (1990). Goleman (1995) approach examined five competencies of emotional intelligence:

- Self-awareness; knowing one's internal states, preferences, resources and intuitions (Goleman, 1995). Self-awareness involves knowing one's emotions and their effects through emotional awareness, making accurate self-assessment and having self-confidence
- Self-regulation; managing one's internal states, impulses and resources which include self-control, trustworthiness, conscientiousness, adaptability and innovation (Goleman, 1995)
- Self-motivation; the control of emotional tendencies that guide or facilitate reaching goals which includes achievement drive, commitment and initiative and optimism (Goleman, 1995)
- Social awareness (empathy); the awareness of others' feelings, needs and concerns (Goleman, 1995). Empathy involves understanding others, developing others having a service orientation, leveraging diversity and possessing a keen political awareness
- Social skills (relationship management) one's adeptness at effectively handling interpersonal relationships which involves influence tactics, effective communication with others, conflict management skills, leadership abilities, change management skills, instrumental relationship management, collaboration and cooperation abilities and effective team membership capabilities (Goleman, 1995, 1998c)

Boyatzis *et al.* (2000) and Goleman (2001) revolve an re-develop Goleman's Theory on emotional intelligence. They defined a four overarching clusters as a behavioral group of competencies which are: Self-awareness, self-management, social awareness (empathy) and relationship management. Goleman (1998a, b) argues that emotional intelligence is a primary need for any successful leadership. Barling *et al.* (2000), agreed with Golemans' statement and implies that there are several reasons that a leader with high emotional intelligence will tend to have

a transformational leadership behavior. First, leaders who know and can manage their own emotions and display self control and delay of gratification, would serve as a role model for their followers and hence will increase the trust and respect for the follower to the leader. This is in the core of idealized influence.

Second, with understanding each other emotions, leaders with high emotional intelligence would be able to understand the extent to which followers' expectations that could be raised, the essence of inspirational motivation. Third, a major component of individualized consideration is to understand followers need and deal with it.

With its emphases on empathy and the ability to manage relationships positively, leaders who have a high level of emotional intelligence would likely to have high level of individual consideration. George (2000) argued that emotional components may be used by transformational leaders for inspirational motivation. While other researchers implied that professional or moral standards behaviors are common aspects of both emotional intelligence and transformational leadership (Brown *et al*., 2006).

George (2000) have pointed out about previous studies and their research about leaders and heir decision process. Hence, majority of the research have identified the role of emotions in leadership. In his arguments, George (2000) claimed in order to increase the effectiveness of leaders to improve leaders' ability to solve problems and to address issues that may face leaders and their organizations, emotional intelligence should play an important role in leadership effectiveness. Moreover, George proposes that leaders high on emotional intelligence are more to use positive emotions to envision major improvements to the functioning of an organization and more able to appraise and influence their followers and subordinates emotions, so that they are receptive and supportive of the goals and objectives of the organization. Leaders who posses high emotional intelligence are more able to improve their decision making and recognize the emotions that is linked to opportunities and problems to help them in decision making process. Organizations need to sustain a solid communication channels between staff and management organizations by encourage constructive self-expression. According to Diggins (2004), organizations that discouraged self-expression not only restrict communication but also limit the potential for receiving innovative ideas and creative ways of approaching challenges from all levels of management and staff.

Therefore, an emotionally intelligent leader will make sure that employees have self-expression. Since transformational leadership would improve organizational innovation and a strong relation exist between transformational leadership and high levels of emotional intelligence for leaders so transformational leaders who have a high level of emotional intelligence would increase levels of innovation in the organization. Gardner and Stough (2002) conclude in their study the ability to identify and understand the emotions of others in the workplace is important for leaders so that they can influence the feelings of subordinates to maintain enthusiasm and productivity.

A leader needs to maintain a positive appearance to subordinates in order to instill feelings of security, trust and satisfaction and thus to maintain an effective team. A study done by Suliman and Al-Shaikh (2007) proves that in order for the organization to be creative and innovative, leaders need to have a good relationship with employees, leaders need to understand their emotions and feelings. Therefore, leaders need to possess a high level of emotional intelligence.

Hence, proposition 2 states that emotional intelligence moderates the relationship between transformational leadership and organizational innovation. In addition, research shows that if a leader manage his emotions properly, he can drive trust, loyalty and commitment and many of the greatest productivity gains, innovations and achievements of individuals, teams and organizations (Cooper, 1997). A study done by David and Ciarrochi (2005) found out that executives with high level of emotional intelligence are more likely to achieve business outcomes and be considered effective leaders by their subordinates and direct manager. According to Goleman (1998a) successful and effective leaders possess a high level of emotional intelligence.

CONCEPTUAL FRAMEWORK

Based on the preceding discussion, a conceptual framework is proposed as shown in Fig. 1 to conceptualize the relationship between transformational leadership and organizational innovation with the moderating effect of emotional intelligence. It is proposed to examine whether transformational leaders with high emotional intelligence can increase the creativity of the employee and yield in high organizational innovation.

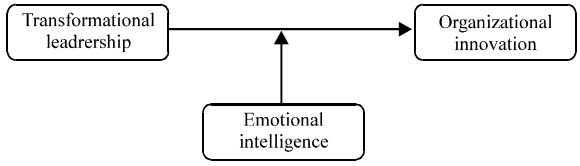

Fig.1: Conceptual framework

CONCLUSION

Leadership considers one of the important factors in the organizational innovation. Today, due to the unstable business environment the world is living, organizations need leaders that can pull them out of the rabbit hole. Nevertheless, leaders with transformational leadership style tend to increase the innovation of organization. This study highlights the role of emotional intelligence in the relationship between transformational leadership and organizational innovation. Emotional intelligence is a relatively new topic in the research area and has proven its influence on the organization innovation through its leaders.

Reason being, a leader with a high level of emotional intelligence will induce employee cooperation, employee motivation and employee commitment, levels of creativity and subsequently the level of innovation in organization.

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