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Impact of Leadership on Innovation: Evidence from the Hotel Industry

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Abstract: Research Question: The paper investigates a relationship between innovation and transformational/transactional leadership, as well as the impact of these two leadership styles on innovation. **Motivation:** As there is a small number of studies that have examined the impact of transformational and transactional leadership on innovations within the hospitality industry and in Serbia, the need for investigation is obvious. The paper draws on methodology and works of Bass and Avolio (1997), Hogan et al. (2011) and Nasution et al. (2011) which are, in this paper, applied to the context of hotel industry. The results of this study will expand theory in this field and can be used as a significant practical guide for hotel management in order to achieve business improvement. **Idea:** In today's turbulent business environment the ability of the organization to innovate has been a decisive factor of surviving, creating and maintaining competitive advantage on the market and also a critical factor in improving what the organization does. The aim of this research is to determine the predictive effect of transformational and transactional leadership on innovations within hotel industry in Serbia. **Data:** The study included 512 employees in 57 three, four and five-star hotels in Serbia. A convenient sampling method was applied. The questionnaire used measured the employees' attitude towards innovations and transformational and transactional leadership, as well as socio-demographic variables **Tools:** The data were prepared and analysed using statistical software IBM SPSS 24.0. Statistical data processing methods used in this paper are descriptive statistics, the reliability of the instrument, correlation and regression analysis. **Findings:** The research results show that both transformational and transactional leadership styles predict innovations, where transformational leadership style is a stronger predictor and better correlates with innovations. The results show that transactional leaders may also encourage innovativeness, but within the frames of the tasks already set. They can also motivate the employees by using different methods such as stimulative rewards, however, they are primarily focused on task execution. **Contribution:** The results can be used in making future decisions, measures and standards related to human resource management, as well as the development and promotion of innovative activities in hotels.

Keywords: Transformational leadership, transactional leadership, innovation, hotel industry, Serbia

JEL Classification: M54, O30, Z31

1. Introduction

Implementing innovations, companies try to create and maintain their competitive advantage. Innovations are important for all sectors of economy, particularly the hotel industry. Innovations help the hotels differentiate in terms of category, which may significantly affect the choice of hotel as well as a higher level of guest satisfaction. The hotel employees may provide support in introducing innovations, but they may also be the obstacle. Modern work conditions demand a new approach in management, wherein the manager's main goal is to inspire the employees, create a clear vision and working climate, which will encourage the employees to accept changes, generate new ideas, acquire new skills, apply, transfer and transform them into new products, services or processes.

New theories, which have been created as a response to challenges the companies face in changing business environment, indicate that leadership is a complex relationship between the leader and the follower, wherein transformational and transactional leadership styles are key to accelerating the changes (Northouse, 2008). The transformational leadership style within organizations is a factor of creating a climate that is supportive of changes, minimizes the employees' resistance and affects the employees in order for them to feel significant in making the changes which take place within the organization by motivating them to have better,

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higher quality engagement and innovative behaviour (Bass, 1985; Bass & Avolio, 1990; Bass & Riggio, 2006). Unlike the transformational leadership, the transactional leadership does not take into consideration the employees' needs nor their personal development; it is based on a concept of exchange between the leader and the follower, which may negatively affect the creativity which is key to innovations (Burns, 1978; Bass, 1985; 1990; 2000; 2008).

Considering a small number of studies which cover the above mentioned topic, particularly within the hospitality industry, this paper is meant to determine a predictive effect of transformational and transactional leadership styles on innovations in the first, second and third category hotels in Serbia.

The main objective of the research is operationalised through the following hypotheses:

H1: Transformational and transactional leaderships predict innovations.

H2: Transformation leadership is a better predictor of innovation than transactional leadership.

2. Literature Review

In today's turbulent business environment the ability of the organization to innovate and take advantage of innovations has been a decisive factor of surviving, creating and maintaining competitive advantage on the market and also a critical factor in improving what the organization does.

Innovations are new or improved products, services, processes or improved organizational or marketing strategies. Innovation involves transformation of an idea into a marketing product or service, new or improved production or distributive processes or a new way of providing social services (Mortensen & Bloch, 2005). Innovations may be present in various forms, which is why there are different types of innovations.

Innovations are the basis for the success of organizations in the hospitality industry as they provide organizational efficiency, improvement of product quality, reduction of costs, higher customer satisfaction, increased sales and profits, increased market share and differentiation in relation to the competitors (Jones, 1996; Ottenbacher, Gnoth & Jones, 2006; Chang, Gong & Shum, 2011).

Research has shown that leadership is a significant factor in hotel innovativeness (Sundbo, Johnston, Mattsson Millett, 2001; Orfila-Sintes, Crespi-Cladera & Martinez-Ros, 2005; Martinez-Ros & Orfila-Sintes, 2009).

The concept of transformational leadership is one of the modern and often used theories of leadership (Day & Antonakis, 2012). Transformational leadership was originally introduced by Burns (1978) and further developed by a number of authors (Bass, 1985; Bass & Avolio 1990; Bennis & Nanus, 1985; Kouzes & Posner, 2006). The essence of transformational leadership rests on the inspirational abilities of the leaders, whether they express them through words, vision or other activities. Transformation leaders are recognized as change agents, visionaries who trust people, leaders guided by values, oriented towards lifelong learning, able to cope with complexity, ambiguity and uncertainty (Peterson, Walumbwa, Byron & Myrowitz 2009; Judge & Piccolo, 2004). Four characteristics distinguish transformational leadership from other leadership concepts, and they are the following: individualised consideration or compassionate leadership, intellectual stimulation, inspirational motivation, idealized influence or charismatic leadership (Bass & Avolio, 1990; Bass & Riggio, 2006). Charisma implies that the leader has a vision and enjoys a high degree of trust and respect by the followers. Inspiration means that leader communicates great expectations and uses symbols and emotional appeals to focus the members' efforts towards achieving more than their own interest. Intellectual stimulation represents the promotion of intelligence, rationality, and careful problem solving. Individual consideration points out that the leader gives importance to each individual, with whom he builds a special relationship, advises them and directs them.

Transformational leadership in the hospitality industry has been covered in several studies (e.g., Hinkin & Tracey, 1994; Tracey & Hinkin, 1996; Gill, Flaschner & Shachar, 2006; Chiang & Jang, 2008; Erkutlu, 2008; Hinkin & Schriesheim, 2008; Scott-Halsell, Shumate & Blum, S. 2008; Patiar & Mia, 2009; Khalili, 2016; Liang, Chang, Ko & Lin, 2017).

Transformational leadership has a two-way effect: leaders directly affect individuals by inspiring them, while their effect on the culture of the organization directly affects motivation and behaviour of the employees. In other words, a transformational leader must instill a new approach to the culture and motivate the followers to improve their performance. The leader demonstrates the strategic vision, determines the new approach to culture and leads the followers as the launchers of changes. In order for the changes to take place, it is necessary for the transformational leader to be able to gather the leading coalition around him/her but also

to develop strategies for realizing the vision. Furthermore, the transformational leader must be able to remove any obstacles and resistance towards changes; the leader must be able to change the whole system as well as the structures which threaten the vision of change (Kontic, 2008).

The influence of the transformational leader stems from his/her behaviour, i.e., the ability to inspire the followers with the vision and make radical changes. Four characteristics differentiate transformational leadership apart from other leadership concepts, and they are the following: individualized consideration or compassionate leadership, intellectual stimulation, inspirational motivation, idealized influence or charismatic leadership (Bass, 1990; Avolio, 1999).

Transformational leaders influence the followers and encourage them to be creative, innovative and motivate them to work harder than it is expected of them (Zetie, Sparrow, Woodfield & Kilmartin, 1994; Xenikou & Simosi, 2006; Boerner, Eisenbeiss & Griesser, 2007). A research conducted by Clark, Hartline, & Jones (2009) determined a positive correlation between transformational leadership and mutual values shared by all employees which affect the understanding of their own role within the organization, job satisfaction and commitment to quality service.

The concept of transactional leadership has been shaped together with transformational leadership by Burns (1978). The transactional leadership is different from transformational style as it does not take the followers' needs and personal growth into consideration. The transactional leadership is based on the concept of exchange between the leader and the follower – the leader provides the followers with the necessary resources and rewards in exchange for motivation, productivity and effective task execution (Burns, 1978; Bass, 1985; 1990; 2000; 2008). In addition, transactional leadership allows the followers to fulfill their own self-interests, minimize workplace anxiety, and concentrate on clear organizational objectives such as increased quality, customer service, reduced costs, and increased production (Sadeghi & Pihie, 2012). Whittington, Coker, Goodwin, Ickes & Murray (2009) indicate that the exchange denotes that both the leader and the follower have a value that is being exchanged. Transactional relationship implies an immediate and short-term goal that will result in benefits for both parties.

Transactional leadership may appear in two forms: the concept of potential reward and management by exception (Bass, 1985; Bass & Avolio, 1990). In this leadership style leaders are passive and indifferent towards the employees and their tasks. Leaders rely on discipline and punishment which is used to correct the employees' behaviour. Although the employees are free to make their own decisions until they make a mistake, the absence of support and positive working environment is prominent and puts great pressure on the employees. Although in a small number of cases this concept proved to be successful, there is an even larger number of organisations where transactional leadership is responsible for minimal performance and low motivation. According to Trmcic, Milinkovic & Trmcic (2013), transactional leadership is inspiring only in a short term and its results are temporary.

Transactional leaders view the organization and the employees more traditionally and use power in order to ensure that the employees are executing the tasks set before them. Research (Hinkin & Tracey, 1994; Tracey & Hinkin, 1996) has shown that senior managers in hotels use the transactional leadership style more often and that they can ensure satisfactory results within a stable working environment. Research in the hospitality has shown that the application of transactional leadership may result in a lower job satisfaction and lower commitment to the organization, low service quality and low performance (Lockwood & Jones, 1989; Zohar, 1994). This is because transactional leadership dismisses the followers' development and does not contribute to development of innovativeness and new skills (Banker, Khosla & Sinha, 1998; Boerner et al., 2007).

Relations between transformational and transactional leadership, on the one hand, and innovations, on the other hand, have been analysed in numerous studies. It has been found that transformational leadership encourages innovations by introducing the system of the employees' personal values (Bass, 1985; Gardner & Avolio, 1998) which in turn increases the level of motivation of the employees (Shamir, House, & Arthur, 1993) as well as creativity in completing everyday job tasks (Sosik, Avolio & Kahai, 1997; Jaiswal & Dhar, 2015; Wang, Tsai & Tsai, 2014). Transformational leadership is oriented towards the future, planning, freedom of thought and energy. The characteristics of transformational leadership that are related to intellectual encouragement as well as supporting the employees in their attempt to be creative and give innovative solutions to the tasks given to them proved to be the factors that are related to organizational innovations the most (Henry, 2001; Bundy, 2002; Jung, Chow & Wu, 2003). Numerous studies have shown a positive impact of transformational and transactional leadership styles on innovations. (Jung et al., 2003; Politis, 2004; Gumusluoglu & Ilsev, 2009a; Gumusluoglu & Ilsev, 2009b; Choi et al., 2016). However, some studies have shown that there is no relation between transformational leadership and innovation (Krause, 2004). The results of a study by Bono & Judge (2004) indicate that transactional leadership has a more negative effect on the employees' creativity and that there is a negative correlation between transactional leadership and innovative

behaviour, or that the relation between transactional leadership and innovation does not exist (Işcan, Ersarı & Naktiyok, 2014). Transactional leadership may affect the innovative behaviour of the employees, but the development of such behaviour is mostly related to realizing the goals and tasks set beforehand.

3. Methodology

The study included 512 employees in 57 hotels in Serbia, formally categorized with three-stars, four-stars and five-stars. A convenient sampling method was applied. The average number of respondents per hotel was nine.

Out of the total of 702 questionnaires that were distributed, 512 were validly completed questionnaires (84.9%).

The study included a questionnaire which consisted of two parts. The socio-demographic variables of respondents were measured in the first part: gender, age, education and hierarchical level of the work (Table 1). The second part of the questionnaire consisted of two instruments that measured the attitude of the employees towards innovations and transformational and transactional leadership.

Table 1: Socio-demographic variables of respondents

Variable	Category	Number of respondents	Percentage of respondents (%)
Gender	Male	229	44.7
	Female	283	55.3
Age	≤ 20	7	1.4
	21 - 30	221	43.2
	31 - 40	128	25.0
	41 - 50	91	17.8
	51 - 60	62	12.1
	≥ 61	1	0.2
	Missing	2	0.4
Education	Secondary school	253	49.4
	College/Faculty	224	43.8
	Master	31	6.1
	Missing	4	0.77
Hierarchical level of work	Top management	47	9.2
	Middle management	93	18.2
	Lower management	51	10.0
	Non-management staff	321	62.7

Source: Jovicic, 2015

The instrument for measuring innovations included 28 items divided into six dimensions (Hogan, Soutar, McColl-Kennedy & Sweeney 2011; Nasution, Mavondo, Matanda & Ndubisi, 2011), products/services innovations (five items), process innovations (five items), administrative innovations (five items), customer-focused innovations (five items), marketing innovations (four items), and technological innovations (four items).

Transformational and transactional leadership styles were measured by the instrument *Multifactor Leadership Questionnaire* (MLQ) developed by Bass and Avolio (1997). Due to the length of the original questionnaire the research used the representative items of the original questionnaire, 12 items for the transformational leadership and three items for the transactional leadership.

The respondents were expected to express their level of agreement with the statements on a five-point Likert scale, where 1 signified total disagreement, and 5 signified full agreement with the items.

The data were prepared and analysed using statistical software IBM SPSS 24.0. Statistical data processing methods used in this paper are descriptive statistics, the reliability of the instrument, correlation and regression analysis.

4. Results and discussion

The Cronbach's alpha coefficient showed a very high value of 0.91 on a scale which measures transformational leadership and a somewhat lower value on a scale concerning transactional leadership, where α is 0.81, which indicates that the two constructs are highly reliable. Higher mean values are found

in transformational leadership compared to the scale which measures transactional leadership (Table 2). The results indicate that the employees think that managers trust them and that there is mutual respect, but that there is no friendly closeness between the employees and the supervisors. The employees are aware that, depending on their effort, they will gain certain benefits and vice-versa, although the employees think that extra effort sometimes goes unnoticed by the supervisors.

The Cronbach’s alpha coefficient was = 0.975 for the Innovations scale. The total innovative activity is estimated by the mean value $M = 3.57$ (Table 2), which indicates that the analysed hotels are moderately innovative. Relatively similar results were obtained in the study of the hotel sector in Croatia on a sample of 68 hotels (Pivcevic & Garbin Pranicevic, 2012). The problem of moderate innovativeness can be explained through main problems innovative individuals face, and they are related to bureaucracy, unfavorable organizational climate or lack of motivation. Potential innovators may abandon ideas and already started projects too early as they cannot ensure the support or finances. For this reason, it is very important that hotels bring a quality program of encouraging innovations and rewarding creativity on an internal level, which is essential for an innovative culture of any organization.

Table 2 shows the correlation matrix as well. The Pearson’s correlation coefficient has been used as an indicator (r). There are statistically significant ($p < 0.01$), high (> 0.50), positive correlations among all variables, where transformational leadership shows a higher correlation coefficient with innovations compared to transactional leadership, which is in accordance with the studies (Henry, 2001; Bundy, 2002; Jung et al., 2003).

Table 2: Descriptive statistics, reliability and correlations matrix

Variables	N	M	SD	α	r		
					1	2	3
1 Transformational leadership	495	3.81	.688	.911	1		
2 Transactional leadership	506	3.51	.881	.821	.632**	1	
3 Innovations	478	3.57	.771	.975	.636**	.558**	1

Source: Jovicic, 2015

Using the standard multiple regression it was analysed to which extent transformational and transactional leaderships contribute to innovations. Transformational and transactional leaderships were the independent variables in the model, while innovations were the dependent variable.

The model proved to be statistically significant $F(2.509) = 181,339$; $p = 0.000$. the determination coefficient R^2 indicates how much of variance of the dependent variable explains the model. The model explains 41.6% of the variance (Table 3).

Both predictors give a statistically significant contribution (Table 3), which confirms hypothesis H1. The transformational leadership ($\beta = .453$) is a better predictor of innovations than the transactional leadership ($\beta = .275$), which confirms hypothesis H2 and it is in accordance with the results of some studies (Kanter, 1983; Larsen, O’Driscoll, & Humphries, 1991; Jung et al., 2003; Politis, 2004; Gumusluoglu & Ilsev, 2009a; Gumusluoglu & Ilsev, 2009b; Choi, Kim, Ullah & Kang, 2016). The transformational leadership proved to be an effective leadership style in terms of encouraging organizational innovations (Howell & Avolio, 1993; Lowe, Kroeck & Sivasubramaniam, 1996; Gardner & Avolio, 1998; Jung et al., 2003; Parry & Proctor-Thomson, 2003; Crossan & Apaydin, 2010; Rosing, Frese & Bausch, 2011; Işcan et al., 2014; Weng, Huang, Chen, & Chang, 2015) Li, Mitchell, & Boyle (2016) in similar research indicate that transformational leadership has positive influence, while transactional leadership has no influence on organizational innovation.

Table 3: Results of the regression analysis for Innovations

Predictors	Unstandardized β coefficient	Standardized β coefficient	t	Sig. (p)
Intercept	.896		6.162	.000
Transformational leadership	.500	.453	10.489	.000
Transactional leadership	.218	.275	5.941	.000
R Square	.416			
F	181.339			.000

Source: Jovicic, 2015

These results were expected considering that the characteristics of transformational leaders is to encourage innovativeness of the employees. Kouzes and Posner (2006) have developed a model where one of the characteristics of transformational leaders is to reassess the processes which involve the willingness to change the existing state and step into the unknown. This involves the readiness to innovate, grow and improve (Northouse, 2008). Transformational leaders wish to experiment and try new things, which is what they expect of their followers. Similarly, transactional leaders may also affect innovativeness in some settings (Liu, Liu, & Zeng, 2011), and within the frames of the already set tasks. Furthermore, they can motivate the employees in various ways and with different rewards, but they are primarily focused on executing the tasks in a stable environment, which is also indicated in other studies (Hinkin & Tracey, 1994; Tracey & Hinkin, 1996).

Conclusion

The research results show that both transformational and transactional leadership styles do predict innovations in hotels in Serbia; however, the transformational leadership style is a better predictor of innovations than the transactional leadership.

Adopting the transformational leadership style by hotel managers is important in creating a climate where creativity is being encouraged, ideas are being developed, where there is learning and where changes are readily welcomed. These may in turn affect employees' and guests' greater satisfaction, as well as greater business and financial results of the hotel.

Transformational leadership within the organisation defines the course of further development of the organisation through collaboration with the employees, gives energy and strengthens the team spirit, promotes professional development of an individual which is a significant support to the process of change. Furthermore, by adopting such leadership style the hotel managers will provide their employees with support in their attempts to be creative and come up with innovative solutions to the task given to them and create a supportive environment where individual needs of the employees are being carefully considered. Through the process of delegation, transformational leaders may help the employees face the challenges and improve, by encouraging them to learn from their own mistakes.

The results show that transactional leaders may also encourage innovativeness, but within the frames of the tasks already set. They can also motivate the employees by using different methods such as stimulative rewards, but that they are primarily focused on task execution.

A large number of new hotels are being opened and reconstruction and privatisation of the existing facilities in the recent years indicates that the hotel sector in Serbia is not only facing qualitative and quantitative changes in the accommodation capacities, but also the challenges of transforming traditional styles of the hotel management into modern forms. The leader's role is particularly important as it is the managers who are to start the organizational transformation. By their own example and by changing and adopting modern elements and management styles, the managers will ensure higher satisfaction, creative and innovative activities of the employees in order to create superior values, high quality service and exceed the guests' expectations.

The results of this study are new scientific information within hotel industry and may be a significant practical guide for hotel management, hotel owners, employees and other stakeholders. Scientifically relevant results can be used in making future decisions, determining measures and standards related to human resources management, removing obstacles, the development and promotion of innovative activities in hotels.

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