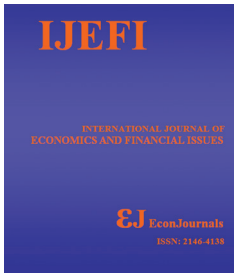

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Relationship of Transformational Leadership, Organizational Learning and Organizational Performance

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ABSTRACT

Purpose of this study is to analyze the influence of transformational leadership on organizational performance through the dynamic capabilities of organizational learning in telecom sector of Kingdom of Saudi Arabia (KSA). Structural equation modeling was used to test the research hypotheses. The data was collected through survey questionnaires which were distributed to the employees of telecom sector of KSA. A random sample of 70 employees was used to collect the data. The response rate was 80%. The results reveal that transformational leadership positively influences the organizational performance and learning. The study also confirms existence of positive association between organizational learning and performance. The study is useful for the managers in telecom sector to understand the impact of transformation leaders to enhance learning capabilities of the employees which ultimately increases the performance of the employees in telecom sector.

Keywords: Transformational Leadership, Organizational Learning, Organizational Performance
JEL Classifications: D8; L25

1. INTRODUCTION

Transformational leadership style boosts up consciousness of collective interest among the organization's members and helps them to achieve their mutual goals. Theories of transformational leadership emphasize emotions, values and the importance of leadership focused on encouraging creativity and new ideas in employees (García-Morales et al., 2012). Leadership plays a crucial role in firms' innovation, because leaders can introduce novel ideas into an organization, establish specific goals, and encourage innovation initiatives from subordinates (Noruzy et al., 2013).

Individual, group and organizational outcome have been associated with leadership styles, and transformational leadership is believed to achieve outstanding levels of outcome from their followers (Khan et al., 2014). Leadership leads to procedural changes which organizations are facing in the dynamic competitive environment and no doubt transformational leadership plays a crucial role in an organizational success.

A number of studies have analyzed the impact of transformational leadership on the performance of organization via intermediate constructs such as entrepreneurship (García-Morales et al., 2006), culture (Ogbonna and Harris, 2000), climate (Yasir et al., 2013) similarity in top management teams (Colbert et al., 2008), flexibility (Rodriguez Ponce, 2007), knowledge management (Gowen et al., 2009), enhancing human resource management (Zhu et al., 2005), and absorptive capacity (García-Morales et al., 2008) and competitive strategies (Menguc et al., 2007). Nevertheless, having a complete understanding of all the processes through which leaders exert this influence is still quite limited and mostly speculative (Bass, 1999). This research is to analyze empirically the influence of transformational leadership on the performance of the organization through organizational learning.

2. ORGANIZATIONAL LEARNING

Organizational learning is the competency "within an organization to maintain or improve performance based on experience. This

activity involves knowledge acquisition (the development or creation of skills, insights, and relationships), knowledge sharing (the dissemination to others of what has been acquired by some), and knowledge utilization (integration of learning so that it is assimilated and broadly available and can be generalized to new situations)" (DiBella et al., 1996). Organizational learning is a continuous process through which an organization increases and enhances the knowledge generated by individuals in a systematic way through cognitive and behavioral change improvement and ultimately transforms this knowledge as a part of the overall organization's knowledge system (Senge, 1990).

Organizational learning comprises positive connotations, the reason being that this form of learning is associated with performance improvements (Senge, 1990). Previous research studies assert relationship between leadership and organizational learning (McGill et al., 1992). Transformation leadership establishes teams and provides them with the required direction, required energy and required support to execute the processes of change and organizational learning (Bass, 1999).

The basic purpose of organizational learning is to improve the quality and quantity of performance, allowing the firm to increase and improve sales, to achieve more support and to create, maintain and enlarge its customer base. Further, organizations that learn and learn quickly increase strategic capability, enabling them to sustain a position of competitive advantage and improve their results. These attitudes, behaviors, and strategies of organizational learning guide organizations to superior long-term performance (Bass, 1999; García-Morales et al., 2012; Noruzy et al., 2013).

2.1. Transformational Leadership and Organizational Performance

The style of leadership has been emphasized as one of the most important individual influences on firms' innovation, the reason being that leaders can directly decide to introduce new ideas into an organization, set specific goals, and encourage innovation initiatives from subordinates (Noruzy et al., 2013). Transformational leadership is a contemporary, hands-on approach that helps one leads people and brings change in organizations (Bhat et al., 2013; Qureshi et al., 2014; Qureshi et al., 2015). Bass (1999) defined transformational leadership as the style of leadership that leads to increased consciousness of shared interest among the members of the organization and it also helps them in achieving their collective goals. Various theories of transformational leadership put emphasis on values, emotions and the importance of leadership in order to encourage creativity in employees.

Many research studies have concluded that transformational leadership has a positive influence on the performance of the followers and organizational outcomes. A number of comparative studies carried out by researchers have also testified that transformational leadership behaviors have a positive relation with subordinate effectiveness in multiple organizational settings (Bass, 1999). Transformational leadership usually carries an effect on performance which is over and above the effect exerted by transactional leadership (Bass, 1999). Transformational leaders possess charisma, deliver inspiration and also promote intellectual stimulation (Bass, 1999). Charisma is responsible for generating the pride, respect and faith that leaders work to inspire their employees to inculcate in them, their leaders, and the organizations for which they are working.

The term organizational performance refers to capability of a firm to materialize such objectives as high profit, good financial results, large market share, quality product, and survival at pre-determined time utilizing relevant strategy for action (Koontz and Donnell, 1993). Previous researchers found that there is direct influence of transformational leadership on organizational performance (Bass, 1999; García-Morales et al., 2008; García-Morales et al., 2012; Menguc et al., 2007).

H1: A positive association exists between transformational leadership and organizational performance.

2.2. Transformational Leadership and Organizational Learning

Previous studies established the link between leadership and organizational learning (Senge, 1990; Senge et al., 1994; Tushman and Nadler, 1986). As transformational leadership develops teams and offers them with the required direction, required energy, and required support so that the processes of change and organizational learning can be induced (Bass, 1999). The aforesaid style of leadership allows organizations enjoy learning through experimentation, exploration, and communication (Menguc et al., 2007; Senge et al., 1994; Tushman and Nadler, 1986).

Transformational leader will be a catalytic agent, an advisor, an organizer and a trainer in organizational learning. Such a leadership style also lets the leader to compel him to learning, to become its main motivating force, and to offer whatsoever is required to overcome inner suspicion and outer problems and hurdles to institute learning within the organization (Senge et al., 1994). The impact of transformational leadership on organizational communication and the effect of communication on organizational learning result in an indirect effect of transformational style of leadership on the organizational learning through communication in the organization (Senge et al., 1994; Argyris and Schön, 1996). Therefore, on the basis of the above opinions, the capacity for transformational leadership is considered to be one of the most important factors of developing organizational learning in firms (García-Morales et al., 2012).

H2: A positive association exists between transformational leadership and organizational learning.

2.3. Organizational Learning and Organizational Performance

The extensive literature stresses the importance of organizational learning for the survival of organizations and its effective performance (Argyris and Schön, 1996; Inkpen and Crossan, 1995; Senge, 1990). Nevertheless, empirical research to analyze this relationship is limited, for the reason that various hurdles, such as vagueness or the time delay between the two (today's learning will affect tomorrow's performance) and the likelihood that external

factors camouflage the results of learning. Research must analyze empirically the impact of organizational learning on performance in technological firms. However, limited knowledge is available related to the mechanisms that transmute organizational learning into performance (Inkpen and Crossan, 1995).

Organizational learning is found to have a positive impact on performance improvements. This positive impact normally happens in both technological companies and manufacturing organizations (Argyris and Schön, 1996; Senge, 1990). Organizations that show an increased breadth, depth, and greater speed of organizational learning usually have greater performance degrees (García-Morales et al., 2012; Bass, 1999).

Those organizations which encourage the learning spirit sacrifice immediate performance in order to gain future performance, because immediate performance is due to the organizational learning drawn from yesterday, while future performance will be an outcome of today's learning process (Senge, 1990).

H3: A positive association exists between organizational learning and organizational performance.

Figure 1 shows the research framework of the study.

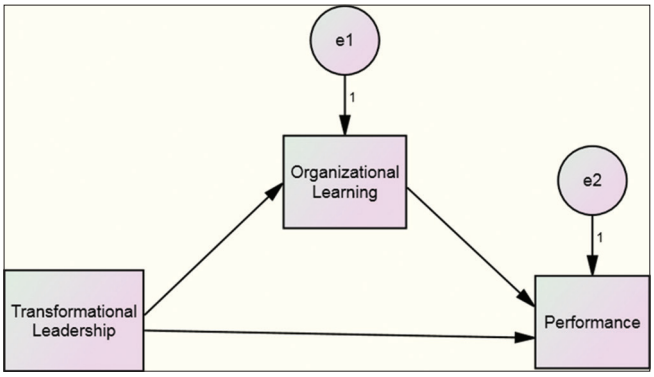
3. METHODOLOGY

This section describes the methodology, including sample size of the research, sources used to get the data and statistical tools used for the analysis.

3.1. Data Collection and Analysis

A cross sectional survey method is used for the present study and the questionnaire used draws on the previous researchers (García-Morales et al., 2012) and is adapted through appropriate modification to align with the Kingdome of Saudi Arabia (KSA) context which helps establish the ecological validity and reliability of the instrument. The questionnaire is made up of two parts namely; Part I) personal information of the respondents and background section with 7 items; Part II) transformation leadership, organizational learning, and organizational performance as perceived by the area, regional and branch managers and contains 3, 4, and 10 items respectively. Total 70 survey questionnaires were distributed using snowballing technique to the area, regional and branch managers in telecom sector of KSA. A response rate of 80% was noticed in the study.

Figure 1: Research framework



Structural educational modeling (SEM) technique comprises of two parts that are done separately. The first part is measurement model stage that is performed to specify how the latent independent variables are measured with respect to observed dependent variables. The second part is structural model stage; this stage specifies the interrelationship of latent variables between constructs (Hair et al., 1995).

This analysis of the two separate models is tremendously important (Hair et al., 1995). They are presented as a path diagram because of the complex nature of the models that highlights the relationship between both the measured variables and constructs (Hair et al., 1995). The structural model was analyzed by using AMOS 18.

4. DATA ANALYSIS AND RESULTS

In the present study 12% of the respondents were <30 years of age, 30% between 31 and 35 years. 28% between 35 and 40 years while respondents who are among the age of 49 years and above is 30%. The maximum numbers of respondents were in the age group of 31-35 years and 49 years and above. 19% of the respondents were having higher education, 25% were having maximum education while 56% were having postgraduate qualification. Data shows that 68% of the respondents were having the experience of <5 years in the current position, 23% were having the experience of 5-10 years in the current position, 7% of the respondents were having the experience of 15-20 years in the existing position while 2% were in the current position for 20 years to above.

4.1. Reliability of Constructs

Table 1 shows confirmatory factor analysis (CFA) results which were performed to determine the factor loadings for each item, along with its reliability scales (i.e. Cronbach's alpha and co-efficient Rho). Factor loading above than 0.50 indicated fitness of the item to latent constructs (Hair et al., 1995). Further the construct have reliability indicators above than 0.70 and are considerably internally consistent (Hair et al., 1995). Constructs having Average variation extraction above 0.50 are producing considerable variation (Hair et al., 1995). The questionnaire consists of four constructs including one exogenous and endogenous variable.

Transformational leadership construct is measured by three items and has the reliability of 0.722 and factor loading range of 0.60-0.79. Organizational learning construct is measured by 04 items and has the reliability of 0.676, and factor loading range 0.55-0.66. Organizational performance has six items with factor loading range 0.64-0.80, Cronbach's alpha at 0.84. This indicates

Table 1: Factor loading and reliability analysis

Latent constructs	Items	Alpha value	Factor loading range
Transformational leadership	03	0.722	0.60-0.79
Organizational learning	04	0.676	0.55-0.66
Organizational performance	06	0.874	0.64-0.80

that the questionnaire has the sufficient internal consistency, factor loadings and composite reliability.

4.2. CFA RESULTS

CFA is a statistical technique used to verify the factor structure of a set of observed variables. CFA allows the researcher to test the hypothesis that a relationship between observed variables and their underlying latent constructs exists. The researcher uses knowledge of the theory, empirical research, or both, postulates the relationship pattern and then tests the hypothesis statistically. The study employed CFA on four latent constructs with transformational leadership having 3 items, organizational learning having 4 items, and organizational performance having 10 items. As the constructs are already determined, that is why CFA was used (Figure 2).

Each item loading should be >0.5 in order to be considered. Tables 2-4 shows the item loading of all items of our latent constructs:

Since the factor loading of last 4 items of last construct is <0.5, therefore they were excluded in subsequent phase and the new model is developed.

4.3. Model Fit Summary (Structural Analysis)

The model provides an acceptable fit to the data, i.e. the values of normed fit index (NFI), comparative fit index (CFI), root mean square error of approximation (RMSEA), goodness of fit index (GFI) and adjusted goodness-of-fit index (AGFI) were found according to the cut points in both the measurement models.

Model fit is achieved by testing the modification indices. GFI, RMSEA and Chi-square statistic are the indices that are usually used for measures that are called absolute fit measures.

These measures find the degree to which the overall model predicts the observed covariance or correlation matrix. NFI, CFI and AGFI

Table 2: Transformational leadership

Item	Statement	Factor loading
TL1	My leader transmits the organization's mission, reason for being and purpose to all employees	0.70
TL2	He/she increases employees level of enthusiasm	0.60
TL3	He/she emphasizes the use of employees intelligence	0.77

Table 3: Organizational learning

Item	Statement	Factor loading
OL1	Under his/her leadership, the organization has acquired and shared much new and relevant knowledge that has provided competitive advantage to the organization	0.60
OL2	The organization's staff has acquired some critical capacities and skills that are providing competitive advantage	0.55
OL3	Organization's improvement have been influenced fundamentally by new knowledge entering the organization (knowledge used)	0.58
OL4	The firm is a learning organization	0.66

Figure 2: Confirmatory factor analysis results

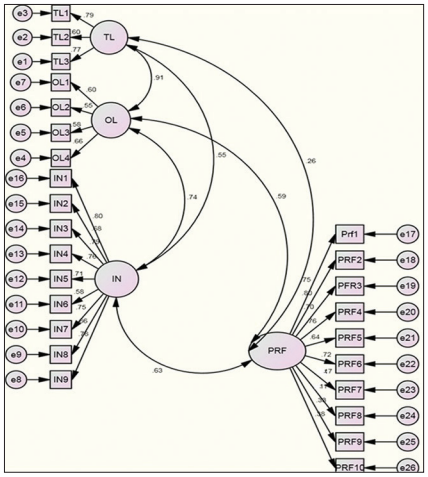


Figure 3: Structural equation modeling result

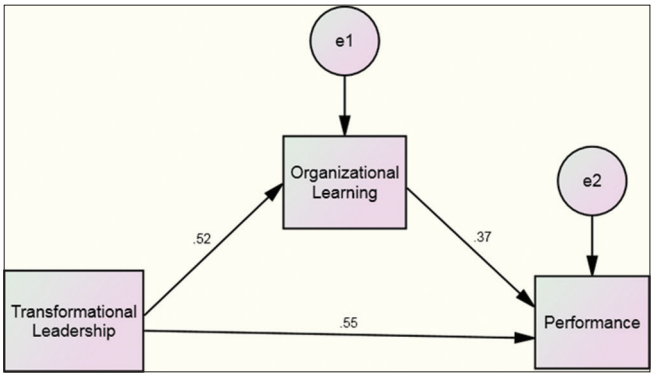


Table 4: Organizational performance

Item	Statement	Factor loading
PRF1	Economic profitability or ROA has increased during the last 3 years	0.75
PRF2	Financial profitability or ROE has considerably increased during the last 3 years	0.80
PRF3	Return on sales (percentage of profits over billing volume) has increased during the last 3 years	0.70
PRF4	During the last 3 years, market share of the organization is in its main products has increased	0.76
PRF5	Organization's market share is in its main services in the market	0.64
PRF6	During the last 3 years, there has been a tremendous growth in sales of organization's main products	0.72
PRF7	I intend to switch to the organization offering higher salary	0.4
PRF8	The physical working conditions are very comfortable to work in	0.11
PRF9	Spirit of cooperation and teamwork exists in the organization	0.38
PRF10	My organization assists me to gain more working experience in the job that I am doing	0.23

ROA: Return on assets, ROE: Return on equity, PRF: ???

are the indices of measures that are known as incremental fit measures. These measures compare the proposed model to some baseline model, most often referred to as the null model.

The null model should be some realistic model that all other models should be expected to exceed. Byrne (2001) proposed a GFI model as measured by the GFI, claiming that GFI index must exceed 0.80. In addition, it is a basic criterion that both indices of NFI and IFI exceed 0.90 for acceptable model fitness, while the recommended fit values for CFI should be more than 0.90 and AGFI more than 0.80. In general, if the value of χ^2/df is smaller than 5, it is considered to be a good fit. Conversely, a RMSEA of <0.08 suggests a good fit. Table 5 indicates the values of fit indices are above or equal to the standards. This shows that the model exhibits complete fitness of its variables.

4.4. Analysis of Model

The final result of SEM for this study is presented in the Figure 3.

According to Figure 3, the standard coefficient of transformational leadership and organizational performance is 0.55 with a $P < 0.05$ which provides enough evidence to reject null and accept H1 which claims the positive relationship between transformational leadership and organizational performance.

Coefficient of relationship between transformational leadership and organizational learning is 0.52 and P = 0.01 indicates the positive and significant relationship between transformational leadership and organizational learning which accept the H2. Path coefficient increased organizational learning will positively affect the organizational performance. H3 is stated as organizational learning positively relates with organizational performance. Path coefficient between organizational learning and organizational performance is 0.37 and P = 0.03 depicts the acceptance of the hypothesis H3.

Table 6 provides the summary of the results.

Table 5: Model fit summary

Fitness indices	Standard values	Achieved values
GFI	≥0.90	0.910
NFI	≥0.90	0.861
RMSEA	P<0.08	0.081
CFI	≥0.90	0.0.90
AGFI	≥0.80	0.82
Chi-square (χ^2/df)	<3	2.97

GFI: Goodness of fit index, NFI: Normed fit index, RMSEA: Root mean square error of approximation, CFI: Comparative fit index, AGFI: Adjusted goodness-of-fit index

Table 6: Summary of hypotheses

Hypotheses	Statement	Result
H1	A positive association exists between transformational leadership and organizational performance	Accepted
H2	A positive association exists between transformational leadership and organizational learning	Accepted
H3	A positive association exists between organizational learning and organizational performance	Accepted

5. DISCUSSION AND CONCLUSION

The results show that there exists a strong relationship between transformational leadership and organizational performance. Telecom industry needs transformational leadership to improve their organizational performance and the effect is further enhanced with the combined effect with organizational learning. The results also show that there exists a positive relationship between transformational leadership and organizational learning which is confirmed by other studies (García-Morales et al., 2012; Noruzy et al., 2013). The more the leader exerts influence as transformational leader, the more is the organizational learning. This study established relationship of the transformational leadership and organizational learning, so organizations which are striving for improving learning should focus on transformational leadership in the organization in order to improve organizational learning.

5.1. Limitations and Future Research Directions

Transformational leadership as an area of academic research is relatively at early stage in KSA. The result of this study can be used as a benchmark for other developing countries. This would hopefully add significant contribution to the conceptual and empirical research in this evolving area. The qualitative techniques can also be employed to further explore the nature and variables in this study. Future researches may include the telecom organizations of other regions and/or corporate sectors.

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