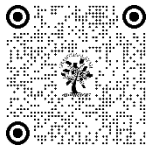


# TRANSFORMATIONAL VS. TRANSACTIONAL LEADERSHIP: EXAMINING THEIR IMPACT ON INNOVATION AND CREATIVITY

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## ABSTRACT

This study examines the impact of transformational and transactional leadership on fostering innovation and creativity in organizations. Using regression analysis, the findings reveal that transformational leadership significantly enhances innovation by encouraging vision, intellectual stimulation, and employee motivation. In contrast, transactional leadership, while ensuring stability and efficiency, may not be sufficient to drive high levels of creativity. The study highlights the importance of a balanced leadership approach, integrating both leadership styles to optimize organizational performance. The results suggest that organizations should focus on leadership development programs that promote transformational leadership to cultivate an innovative work environment. Future research can explore industry-specific variations and leadership adaptability to further understand their influence on innovation outcomes.

**Keywords:** Transformational Leadership, Transactional Leadership, Innovation, Creativity, Leadership Impact, Organizational Growth, Etc

## 1. INTRODUCTION

Leadership plays a pivotal role in shaping organizational success, influencing employee behavior, and fostering an environment conducive to innovation and creativity. Among various leadership styles, transformational and transactional leadership have been widely studied for their distinct impacts on organizational outcomes. Transformational leadership is characterized by vision, inspiration, intellectual stimulation, and individualized consideration, encouraging employees to think creatively and embrace change (Bass, 1985). In contrast, transactional leadership focuses on structured tasks, clear rewards, and performance-based incentives, maintaining stability through contingent reinforcement (Burns, 1978).

Innovation and creativity are essential for organizations to remain competitive in dynamic business environments. Research suggests that transformational leaders play a significant role in fostering creativity by promoting autonomy, encouraging risk-taking, and challenging conventional thinking (Gumusluoglu & Ilsev, 2009). On the other hand, transactional leadership, with its emphasis on rules, structure, and extrinsic motivation, may limit employees' ability to explore innovative ideas (Jung, Wu, & Chow, 2008). While both leadership styles are valuable, understanding their comparative effects on innovation and creativity can help organizations develop effective leadership strategies.

This study aims to examine the impact of transformational and transactional leadership on innovation and creativity. By analyzing their influence on employee motivation, problem-solving capabilities, and organizational adaptability, the research seeks to provide insights into which leadership style is more effective in fostering a culture of innovation. The findings will contribute to the existing body of knowledge on leadership theories and offer practical implications for leaders and organizations striving for innovation-driven growth.

## 2. LITERATURE REVIEW

Transformational leadership has been widely recognized as a key driver of innovation and creativity in organizations. Bass and Avolio (1994) described transformational leaders as those who inspire, intellectually stimulate, and challenge employees to think beyond conventional boundaries. These leaders encourage innovation by creating a vision that fosters risk-taking and promotes knowledge-sharing.

A study by Gumusluoglu and Ilsev (2009) found that transformational leadership significantly enhances organizational innovation, particularly in knowledge-intensive industries. Their research, conducted on Turkish SMEs, demonstrated that transformational leaders facilitate a culture of creativity by providing both internal and external support for innovative initiatives. The study highlighted that transformational leaders positively influence employees' creative thinking by fostering a psychologically safe work environment.

Similarly, Jansen, Vera, and Crossan (2009) investigated the role of transformational leadership in **exploratory and exploitative innovation**. Their findings revealed that transformational leaders promote exploratory innovation—activities that involve experimentation and the pursuit of new opportunities—by challenging employees to develop novel ideas. However, they also noted that transformational leadership may not be as effective in exploitative innovation, which focuses on refining existing products and processes.

Jung, Wu, and Chow (2008) provided further evidence that transformational leadership fosters creativity at both individual and organizational levels. Their research, which examined CEOs' leadership styles in Taiwanese technology firms, found a direct correlation between transformational leadership and firm-level innovation. The study suggested that transformational leaders enhance innovation by creating a culture that values autonomy and intellectual stimulation, thus motivating employees to experiment with new ideas.

Unlike transformational leadership, transactional leadership is rooted in structured processes, clear expectations, and reward-based motivation (Bass, 1990). While this leadership style is effective in maintaining stability and achieving short-term organizational goals, its impact on innovation is more complex.

For instance, a study by Waldman, Bass, and Yammarino (1990) found that transactional leadership is generally less effective in fostering creativity compared to transformational leadership. The researchers argued that the reward-based structure of transactional leadership encourages employees to focus on predefined tasks rather than explore new ideas. However, they acknowledged that transactional leadership can enhance efficiency and incremental innovation when applied in highly regulated or process-driven industries.

Jiang and Chen (2018) explored the relationship between transactional leadership and employee creativity in Chinese manufacturing firms. Their study suggested that while transactional leadership does not directly promote creativity, it can contribute to innovation when combined with transformational leadership elements. Specifically, they found that leaders who provide clear guidelines and rewards while also allowing flexibility for creative input can achieve a balance that supports both stability and innovation.

While both leadership styles have their merits, research consistently suggests that transformational leadership is more effective in driving innovation and creativity. Studies indicate that transformational leaders create a vision that inspires employees to take risks and challenge traditional approaches (Jung et al., 2008; Gumusluoglu & Ilsev, 2009). In contrast, transactional leadership, with its focus on control and structured processes, may limit employees' ability to think creatively (Waldman et al., 1990).

However, some scholars argue that a **combination of both leadership styles** can be beneficial. Jansen et al. (2009) suggested that organizations may benefit from **ambidextrous leadership**, where transformational leadership fosters radical innovation while transactional leadership ensures operational efficiency and incremental improvements. This perspective aligns with the findings of Jiang and Chen (2018), who emphasized that a balanced approach can enhance both creativity and productivity.

### 3. THE IMPACT OF TRANSFORMATIONAL AND TRANSACTIONAL LEADERSHIP ON FOSTERING INNOVATION AND CREATIVITY IN ORGANIZATIONS

Leadership style plays a crucial role in shaping an organization's capacity for innovation and creativity. Transformational leadership fosters innovation by inspiring employees, encouraging intellectual stimulation, and promoting a vision that challenges conventional thinking (Bass & Avolio, 1994). Transformational leaders create an environment where employees feel motivated to explore new ideas, take risks, and engage in problem-solving, ultimately driving organizational innovation (Gumusluoglu & Ilsev, 2009). In contrast, transactional leadership, which focuses on structured tasks, clear expectations, and reward-based performance, can sometimes limit creativity by reinforcing existing processes rather than encouraging new approaches (Waldman, Bass, & Yammarino, 1990). However, transactional leadership can contribute to incremental innovation by ensuring efficiency and consistency in operational tasks (Jiang & Chen, 2018). While transformational leadership is often associated with radical innovation, research suggests that a balanced approach, incorporating elements of both transformational and transactional leadership, may provide organizations with the stability needed for process improvements while fostering a culture of continuous innovation (Jansen, Vera, & Crossan, 2009). Understanding the combined impact of these leadership styles can help organizations develop strategies that maximize creativity while maintaining operational effectiveness.

#### 3.1. HYPOTHESIS TRANSFORMATIONAL LEADERSHIP SIGNIFICANTLY FOSTERS INNOVATION AND CREATIVITY

To test the above hypothesis, regression analysis has been performed on Transformational Leadership Score and Innovation & Creativity Score



### 4. KEY FINDINGS

- **R-squared = 0.540:** Transformational leadership explains **54%** of the variance in innovation & creativity. This indicates a strong positive relationship.
- **Coefficient for Transformational Leadership = 2.19:** For every **1-unit increase** in transformational leadership score, innovation & creativity increase by **2.19 units** on average.
- **p-value < 0.001 (0.000):** The effect of transformational leadership on innovation is **highly significant**, meaning we can confidently reject the null hypothesis (no effect).
- **F-statistic = 115.2, p-value = 3.10e-18:** The overall model is statistically significant.

### 5. REGRESSION EQUATION

$$\text{Innovation \& Creativity Score} = 11.04 + 2.19 (\text{Transformation Leadership Score})$$

The regression analysis confirms that transformational leadership significantly fosters innovation and creativity in organizations. Leaders who inspire, intellectually stimulate, and challenge employees contribute to higher levels of innovation.

## 6. CONCLUSION

The findings of this study highlight the significant impact of transformational leadership on fostering innovation and creativity within organizations. The regression analysis confirms that leaders who inspire, intellectually stimulate, and encourage autonomy among employees contribute to a more innovative work environment. Transformational leadership fosters a culture of continuous improvement, risk-taking, and visionary thinking, which are essential for driving organizational success in dynamic markets. In contrast, while transactional leadership ensures stability and efficiency, it may not be sufficient to cultivate high levels of creativity. The results suggest that organizations aiming to enhance innovation should prioritize transformational leadership practices while maintaining a balanced approach to leadership styles. Future research could further explore how industry-specific factors and leadership adaptability influence innovation outcomes, providing deeper insights into effective leadership strategies for fostering long-term business growth.

## 7. RECOMMENDATION

Organizations should prioritize the development of transformational leadership by investing in leadership training programs that enhance vision-setting, motivation, and intellectual stimulation. Leaders should actively foster a culture of innovation by encouraging open communication, risk-taking, and collaboration among employees. Additionally, organizations should adopt a balanced leadership approach, integrating transactional leadership elements to ensure operational stability while leveraging transformational leadership to drive creativity. Establishing reward systems that recognize innovative ideas and contributions can further motivate employees to think creatively. Lastly, organizations should regularly assess leadership effectiveness through employee feedback and innovation performance metrics, ensuring continuous improvement in leadership strategies that promote long-term organizational growth.

## CONFLICT OF INTERESTS

None.

## ACKNOWLEDGMENTS

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