

IMPACT OF TRANSFORMATIONAL LEADERSHIP ON BUSINESS PERFORMANCE

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Original scientific paper

Research results about the impact of transformational leadership on business performance in companies in Bosnia and Herzegovina are presented in this paper. Financial performance and new product development are considered as business performances. Shown data are gained from survey of $N=127$ top managers. Descriptive statistics and correlation analysis are statistical evaluation methods used in this survey. The research results show that transformational leadership has positive impact on acquirement of high level financial performance of company and new product development. Research has also shown that leaders and managers of companies in Bosnia and Herzegovina focus their attention more on tasks than on people. So recommendation for them is to pay more attention to the changes, the future and long-term plans, as well as to their employees. It is very important for leaders to be ready to create and implement changes, to have vision, to be focused to the future and long-term plans and effects.

Keywords: *Bosnia and Herzegovina; financial performance; new product development; transformational leadership*

Utjecaj transformacijskog liderstva na poslovne performanse

Izvorni znanstveni članak

U radu su prikazani rezultati istraživanja utjecaja transformacijskog liderstva na poslovne performanse u poduzećima u Bosni i Hercegovini. Kao poslovne performanse posmatraju se finansijske performanse i razvoj novog proizvoda. Podaci su dobiveni anketiranjem $N=127$ vrhunskih menadžera. Od metoda statističke obrade podataka korišteni su deskriptivna statistika i korelacijska analiza. Rezultati istraživanja pokazuju da transformacijsko liderstvo ima pozitivan utjecaj na postizanje visoke razine finansijskih performansi poduzeća i na razvoj novog proizvoda. Također, istraživanje je pokazalo da lideri i menadžeri u poduzećima u Bosni i Hercegovini imaju veću usmjerenost na zadatke nego na ljude. U tom smislu, preporuka za njih jeste da više pozornosti posvećuju promjenama, budućnosti i dugoročnim planovima, ali i svojim zaposlenicima. Naročito je značajno da su lideri spremni na kreiranje i uvođenje promjena, da imaju viziju, da su okrenuti ka budućnosti i dugoročnim planovima i učincima.

Ključne riječi: *Bosna i Hercegovina; finansijske performanse; razvoj novog proizvoda; transformacijsko liderstvo*

1 Introduction

Leadership is a process of guiding the behaviour of other individuals towards accomplishment of some goal, and has always been considered to be a postulate of organisation's success. Nowadays it is more important than ever before due to unbelievable possibilities of enhanced communication technologies and widening international business [1]. Central idea of leadership is to do business through people [2].

Leading is not equal to management. As one of four primary management functions, leadership is a subset of management and modern managers should know the difference between management and leadership, as well as how to combine those two roles in order to achieve organisational goals. Basically, managers take care of business to get done, and leaders direct their attention on people who do that work/business. Hence, capability of calculated and logical approach to organisational process (management) and honest care for worker as a human (leadership) [3] are required by combining management and leadership, which all together makes a good way towards development of transformational leadership.

Focus in this paper is on impact of transformational leadership on company's business performance. Transformational leadership gives more attention to leadership elements like charisma and feelings [4]. This approach highlights inner motivation and follower's development [5]. Transformational or charismatic leadership takes central place in leadership researches [6]. It represents process in which people change themselves and implies a certain form of influence achievement through which followers are actuated to achieve more than they are expected to [7].

Leadership impact on various business performances is in focus of interest of numerous references [8–12]. Many studies prove the impact of leadership on company performance. For example, desirable leadership behaviour has a positive relation to organizational commitment, and then organizational commitment leads to proportional, also positive, impact on company performance [13]. Ethical leadership has positive relation to subordinate job satisfaction [14]. It leads to better subordinate to give more effort, and to better business performance. Positive relation between transformational leadership and organisational performance is determined, with interrelation of organisational learning and innovations [10]. Likewise, transformational leadership has important impact on organizational learning, and indirectly impacts company innovativeness [15]. Innovativeness afterwards has positive major impact on performance. The CEOs relationship-focused behaviours are related to employees' attitudes, and then across employees' attitudes, indirectly also to company performance [16].

Significant relation between transformational leadership and organisational operations has been confirmed [17]. Thereafter, leadership has a major role in accepting organisational learning and creation of learning organisation [18]. Thus, it is best for leaders to use elements of both transformational and transactional leadership. However, there are opinions that learning organisation requires transformational leadership directed to achievement of common vision [19].

Financial performance has also relation to the leadership which has extraordinary importance for this paper. There is a clear relation of local leadership with financial performance in stores [20]. It is proven that transformational leadership training can significantly advance financial performance level [21]. The research

investigated organizations in the same industry but with different ownership regarding the extent to which CEOs influence organization performance [22]. Their results suggested that CEO's have influence over firm performance. CEO empowering leadership has positive influence on top management as well as on company performance [9].

Organizational effectiveness and high financial performance require a leader to be cooperative, flexible and adaptive to environment changes [23]. There are several studies regarding how women's leadership can affect company's financial performance [24, 25]. The findings show that female-led firms were slightly better than their male-led counterparts in transmitting market performance into financial performance.

Regarding the relation between leadership and new product development (NPD), numerous studies have shown that leadership has significant influence on NPD [26, 27, 28]. In the process of new product development pace is very important, and some studies emphasize importance of leader role in new product development speed-up [29, 30]. One group of studies implies importance of leader's experience and expertise for the NPD process, but also the need for NPD market direction and taking care of NPD economic aspects [31, 32].

Importance of research presented in this paper comes out of a fact that there are no studies that have dealt with this topic. Therefore, the basic motive of this paper was to fill this gap and to identify condition of leadership and its impact on business performance in companies in Bosnia and Herzegovina. This research has an additional importance due to transition conditions, existence of public and private organisations, and recently more and more foreign companies that do business in Bosnia and Herzegovina.

2 Theoretical basis

2.1 Transformational leadership

Leaders are individuals who foster motivation of their followers in order to achieve goals of leaders and followers as well as possible, and transformational leadership is a process due to which leader deals with other individuals and makes connections between them and thereby increases motivation and moral level [33]. Authentic transformational leadership is socialized and common welfare oriented, where socialized transformational leaders exceed their own interests for the welfare of others [34]. Even though, the basic feature of transformational leaders is pronounced charisma which implies domination, having strong aspiration to influence others, self-confidence and a strong feeling for individual moral values. Charismatic leaders often set high expectations on their followers, and then show them that they have confidence in their abilities to fulfil those expectations. By doing so, they encourage the followers' conscience to have necessary competences and to be efficient, which improves their individual performance [35].

Transformational leaders of highest level are separated from their ego and they put it in service of a more important objective, to make an extraordinary organisation by transformation. Yet it does not mean they

do not have big ego or personal interests, because they are very ambitious actually, but their ambition is principally directed to institution, not to themselves [36].

Transformational leadership improves the followers' performance and enables them to develop to full potential [37]. People who show transformational leadership often have numerous strong inner values and ideals, and they are effective in motivating people to achieve better results regardless of their personal interest [38].

Transformational leadership model has four factors [39]:

- (1) *Charisma or idealised influence* describes the leader who is a strong ideal to his followers. Followers identify themselves with such leaders and want to match them. They give the vision and the sense of mission to their followers.
- (2) *Inspirational motivation* is characteristic to leaders who put high expectations on their followers, inspire their motivation to be dedicated to common vision of organisation.
- (3) *Intellectual stimulus* implies leaders who encourage their followers to be creative and innovative, and to challenge themselves to be dedicated to organisation performance improvement.
- (4) *Individual appreciation* represents a leader who makes support to ambience in which he carefully considers individual needs of his followers, where leaders act as trainers and counsellors helping their followers to accomplish their potentials completely.

There are four strategies that transformational leaders use to transform the organisation, looking for a chance to achieve more efficiency [40]:

- (1) Existence of explicit, understandable, useful and incentive vision, set up on the basis of organisation's needs, to which will all organisation members refer.
- (2) Creation of social ambience, by making form and shape for common attitudes of all organisation members.
- (3) Making confidence in organisation *by clearly pointing up own attitudes and being consistent in their realization*, which is closely related to reliability.
- (4) Leader's creative own evolution through positive self-respect based on self-competences, controlling tasks and general (strategic) organisation objectives.

There are five fundamental practises that enable leader to accomplish outstanding results in a creation of changes in organisation transformation: path modelling, common vision creation, process review, enabling others to act and encouragement [41]. Transformational approach to leadership is an effective leadership form [42]. Transformational leadership requires managers to be aware of relation of their behaviour to the needs of their subordinates and the variable business dynamics of their organisation.

It is also proven that technology and technology based alterations do not have crucial relation to organisation transformation from good to excellent, because technology (for example production automatization) can accelerate alterations but it cannot initialize them, only individuals can do it, respectively

transformational leaders. Therefore, first activity of transformational leader is inventing and implementing of alterations. Organisational alterations are a process of changing current organisation in order to increase organisation efficiency, namely a measure of objective accomplishment of the organisation [43]. Actuated by new technology, widening of global business opportunities and trend of organisation modernisation, almost all organisations change in some way [44].

Alteration is one of the foundations of existence and efficient business activity of the organisation, so leaders who are able to determine appropriate alterations and successfully implement them afterwards making their organisation more flexible and innovative, are very important to those organisations regardless of the structure and sector they do business in [45].

In order to make successful changes, a leader should have special skills, for example skill of solving problems incurred by alteration implementation, skill of having influence on others, and maybe the most important skill for this process, ability of determining intensity (extent and quantity) of changes that employees can endure [46]. Generally speaking, leaders should introduce only those alterations which will increase organisation efficiency, within the context of this paper subject, financial performance and new product performance.

2.2 Financial performance

In this paper the following financial performances were researched: profitability, sales growth, asset growth, market share, and competitive status in the firm's industry, as well as productivity and salaries. There is significant interest in these performances in literature, for example for productivity [47, 48, 49], for salaries [50, 51]. From above mentioned references, it is noticed that issues related to salaries are very actual and significant in less developed countries. That is why this performance is included in research in Bosnia and Herzegovina. Based on former analysis, we formed a set out of seven financial performances researched in this paper: productivity, profitability, market share, sales growth, competitive status, asset growth and employees' salaries.

An important item in business activity enhancement of modern business systems is *productivity* defined as the ratio between total produced quantity of goods and services (outputs), and organisation resources necessary for its production (inputs). Productivity is efficiency of human labour usage. *Profitability* is a set of success indicators, and it compares financial result with invested money, sale and dividend cover. It is a basic principle of company's business activity efficiency. Maximization of financial result (profit) in relation to engaged assets or capital is required. Market share represents an indicator of company's relative proportion in some market (sector, industry) which is calculated by taking the company's volume of production (sales) and dividing it by the total volume of production (sales) on a relevant market. Sales growth as realization of goods and services is the final phase of reproduction process. Sales are in the basis of every business success. In order to realize successful sales, management's task is to create a situation where client (buyer) is satisfied and company has satisfactory

profit at the same time. *Competitiveness growth* in all business fields, continuously amplifies impact of market globalization and shorter product lifecycle. Company competitiveness is a measure of company's capability to produce goods and services in free and peer market conditions which pass test of domestic and international market, and at the same time to keep and long-term increase successful business activity and company's values. *Company assets* refer to those economic values with which it disposes in order to accomplish its objectives and tasks. Main features of assets are: they are used in company's business activities in a long period of time, meanwhile they do not change their shape, they gradually expend by transferring part of their value to products or services. Within the context of above mentioned, it is clear that assets growth is an important financial performance for company's growth and development. *Salaries* or wages consist of wage for work done and time spent on work, wage on the basis of employee's contributions to business success of employer (awards and bonuses), as well as other incomes in respect of employment, in accordance with the employment contract. Even though there are many motivational techniques with which managers try to improve work motivation of their employees as well as their productivity (for example job rotation and flexible working hours), still in countries in transition, such as Bosnia and Herzegovina, most dominant form of influence on motivation and employee's productivity is the salary as a basic form of financial income.

Financial performance is the subject of numerous studies, especially in terms of determining dependence of financial indicators from various organizational aspects [47, 48, 50, 52, 53, 54, 55]. Partially observed, some researchers are directed to studying influence on profitability and its importance [52, 53, 56], some on studying productivity [47, 48, 49], and some on studying salaries [50, 51, 54].

Some references enquire certain sets of the financial performance. For example, in papers [16, 55, 57] the following financial performances were researched: profitability, sales growth, asset growth, market share, and competitive status in the firm's industry. In reference [58] the influence of public relations in companies in Serbia on the following financial performance was analysed: share of salaries in business revenues, productivity, efficiency, profitability, liquidity, profit margin (profit share in business revenues), potential financial risks (exchange rate fluctuations, high interest rates and the like).

2.3 New product development

In this paper, authors decided to examine the impact of leadership on new product development (NPD) besides the impact of leadership on financial performance. While financial performance refers to the current business results in some company, NPD refers to the strategic aspect being the best representative of a firm's condition in the future. In this way the image of the current situation in companies in Bosnia and Herzegovina is completed.

Nowadays the product is the basis of the strategic planning of business. The disproportion of global supply

and demand leaves modest possibilities in managing with other elements of business, such as distribution and promotion in the context of market success, if product or service is not designed and developed in accordance with target customer's needs and expectations. If some company wants to do business successfully and to be competitive in the market, it has to put new product development in its limelight.

New product development assumes combination of various activities which ultimately have the same goals: to achieve technical success of new product (functionality in the technical sense), to achieve customer's satisfaction with new product (with quality, design, etc.) and successful market positioning or new product commercialization (successful large scale sales on market), with which company returns invested funds in development and launches new product on market and makes profit. NPD can represent key factor in achieving competitive advantage, and sometimes company's subsistence [59, 60]. The existence of increased competition on local and on global market, continuous new product development, often changes of consumer's habits and needs, shorter product lifecycle lead to continuous pressure on company to work constantly on new product development [61]. A failure in new product development process can adversely reflect on business activity and the future of company [62].

3 Research methodology

3.1 Survey instruments (measures)

A questionnaire used in this research is designed to give all information about features, skills and strategies of transformational leaders in companies included in this research. It is also designed to be useful for self-evaluation and as a good tool for training and development of own skills, as well as to give answers about extent and intensity of achieved financial performance of the company. Its purpose was to enable measurement of transformational leadership, financial performance and new product development, and to put them into correlation in order to prove extent and intensity of transformational leadership impact on particular organisation results, within context of this paper subject, first of all financial performance.

Transformational leadership behaviour. In this paper, transformational leadership was measured by more than 15 questions (items). Prime five items represent chosen items from multifactorial query about leadership MLQ, type 5x short [63]. Respondents assessed items through five-point Likert scales, ranking from 0 to 4, where grades have the following meaning: 0 (not at all), 1 (from time to time), 2 (sometimes), 3 (quite often), 4 (often but not always). The other ten questions about transformational leadership refer to extent and intensity of manager's organisational and personal efficiency. These questions were defined according to Transformational Leadership Behaviour Inventory query (TLI), developed by Podsakoff and associates [64]. The TLI query was also used in reference MacKenzie et al. [65], and its consistency, reliability and validity were confirmed in papers of Podsakoff, MacKenzie, & Bommer [66]. This query is modified for the needs of research presented in

this paper. Modifications were done so that top managers answer these questions, as well as for adaptation of questions to conditions in companies in Bosnia and Herzegovina. Assessment of these ten items respondents made through seven-point Likert scales ranking from 1 (strongly disagree) to 7 (strongly agree).

Financial performances. In this paper, as the starting point for selection of financial performance to be put into relation with leadership, the following references were taken: Tan & Litschert [55]; Wang et al., 2003 [57]; Wang et al., 2011 [16]. The following financial performances were studied in these papers: profitability, sales growth, asset growth, market share, and competitive status in the firm's industry. To this group of five financial performances two more were added: productivity and salaries. There is significant interest in literature for these performances, for example: for productivity [47, 48, 49], for salaries [50, 51]. It can be concluded from the mentioned references that these issues related to salaries are very actual and significant in less developed countries. That is the reason this performance is included in research in Bosnia and Herzegovina. On the basis of the former analysis, the set of seven financial performances researched in this paper was formed: productivity, profitability, market share, sales growth, competitive status, asset growth and employee's salaries.

Respondents made assessment of all items related to financial performance in this paper, using five-point Likert scales ranking from 1 (very low) to 5 (very high). It was done in accordance with references [16, 55, 56, 57].

New product development. For measuring of success of NPD in this paper, an instrument in accordance with Griffin and Page [67] was used and contains three items: consumer based success, financial success and technical success. This approach validity is confirmed in references: Song, Souder, & Dyer [68]; Souder, Buisson, & Garrett [69]. In reference Belassi et al. [70], these items were observed independently, as a separate dimension. It was done in this paper too. Also, in this paper respondents made assessment of all items related to NPD using six-point Likert scales ranking from 1 (very low) to 6 (very high).

3.2 Participants and data collection

The research was done in 127 companies (mostly production companies) from private and state sector in Bosnia and Herzegovina, during December 2014, and January, February and March 2015. It included 127 managers, mostly top managers, according to the principle one organisation-one manager. Before the research was done, the purpose and importance of research was explained to them. Questionnaire technique and interviews were used as methods of scientific research. The research was done anonymously.

Data collection process was realised by e-mail or phone contacting company's management. Afterwards appointments with the representative of management were made where purpose and importance of research were explained. If company's management asked for a letter of explanation, authors sent it. After management's improvement authors contacted top managers and made a survey.

A sample was representative and chosen by including both public and private companies with 50 and more employees. It was important to include as many sectors as possible. Companies included in this research were mostly from production sector: machine metal processing, food production, wood processing industry, car industry (car elements production), construction, textile and shoes industry, pharmaceutical sector. Companies from service industry were also included (trade, banking sector and insurance companies). Companies from all over Bosnia and Herzegovina were included in this research according to regional representation principle.

3.3 Objective, mission and hypothesis of research

The basic objective of this research was to obtain relevant indicators and to identify the influence extent of methods, strategies and known practices of transformational leadership on business activity management efficiency, financial performance and new product development in mostly production companies in Bosnia and Herzegovina. It was extremely important to identify if there was relation between transformational leadership dimensions and financial performances, transformational leadership influence and new product

development and total organisation performance, and at what extent.

The basic task of this research was to identify directions the operations managers should follow in the future, in order to enhance their features, skills, techniques and transformational leader strategies through education and training, and to learn the ones they do not have. Thus they would acquire additional competences for accomplishment of outstanding results in alteration creation process during continuous adaptation process to constant changes of a dynamic business ambience.

Current studies mostly show that managers who put their employees and their relation to them in their limelight are significantly more efficient than managers who put tasks in their limelight instead of employees who work on those tasks. In context of mentioned studies, recently there is trend that leaders introduce employees in organisation's life, giving them freedom to make and implement decisions in their incidence, which is basis of modern leadership and transformational leadership.

Hypothesis. According to presented theoretical basis and some other studies, the following hypothesis was set up: There are statically significant positive correlations between transformational leadership items and financial performance items in companies in Bosnia and Herzegovina.

Table 1 Descriptive statistics

Items	Acronym	Min.	Max.	Arithmetic mean	Standard deviation
Idealised influence (characteristic). Overlook self-interest for the sake of group welfare.	L1(MLQ)	0	4	2,2283	1,31045
Idealised influence (behaviour). Consideration of the moral and ethical consequences of decisions.	L2(MLQ)	0	4	2,4488	1,30754
Inspirational motivation. Optimistic performance regarding future.	L3(MLQ)	0	4	2,6614	1,28001
Intellectual incentive. Review of the key assumptions in order to check their adequacy.	L4(MLQ)	0	4	2,2913	1,27311
Individual consideration. Helping others to develop their strength.	L5(MLQ)	0	4	2,3622	1,27035
Visionary, forward-looking.	L6	1	7	4,3465	1,72920
Ready to create and introduce changes.	L7	1	7	4,5591	1,71665
Increasing the productivity of others.	L8	1	7	4,5591	1,64584
Getting people to feel like they have the power and they are not controlled in every detail.	L9	1	7	4,4646	1,89735
Inducing the best in people.	L10	1	7	4,0394	1,58064
Accentuation of long-term effects.	L11	1	7	4,9055	1,67348
Improving organizational flexibility.	L12	1	7	4,1181	1,47796
Relaxation and calmness.	L13	1	7	4,2362	1,65930
Accepting feedback calmly and quietly.	L14	1	7	4,2362	1,59093
The interest in self-development.	L15	1	7	4,2913	1,70485
Productivity.	FP1	1	5	3,0866	1,22813
Profitability.	FP2	1	5	3,0079	1,08009
Market share.	FP3	1	5	2,9606	1,13670
Sales growth.	FP4	1	5	2,9291	1,14213
Competitiveness.	FP5	1	5	2,8504	1,11326
Assets growth.	FP6	1	5	2,7087	1,01661
Salaries.	FP7	1	5	2,2756	1,03646
Commercial (financial) success of new products in the past.	FP8 (NPD)	1	6	3,1969	1,33951
Technical success of new products in the past.	FP9 (NPD)	1	6	3,3622	1,33136
Customer satisfaction of new products in the past.	FP10 (NPD)	1	6	3,4094	1,50319
Valid N = 127					

4 Research results

4.1 Descriptive statistics

This research was done on a sample of $N=127$ examinees. 87 (68,50 %) respondents were male and 40 (31,50 %) female. Respondents were also divided into three age groups, so there were: 38 (29,92 %) younger managers (younger than 35 years old), 45 (35,43 %) middle aged managers (from 35 to 50 years old) and 44 (34,65 %) older managers (older than 50 years old). Respondent's education was different but most of them had university education- first degree cycle. There was only one manager with high school diploma (0,79 %), 7 with two-year college degree (5,51 %), 89 with university degree (first degree cycle) (70,08 %), 23 with master degree (second degree cycle) (18,11 %), and 7 doctors of science (5,51 %). When it comes to the field of education, 36 respondents (28,35 %) have education from the field of natural sciences, 63 from the field of social sciences (49,61 %), and 28 from some other fields of education (22,05 %). Organisation structure where respondents are engaged is also different, and out of 127 organisations, 105 organisations have Bosnian-Herzegovinian national

origin (82,68 %) and 22 have other origin (mostly EU origin) (17,32 %). 68 organisations are in private ownership (53,54 %), and 59 in state ownership (46,46 %).

Descriptive statistics for items of transformational leadership, financial performance and new product development are shown in Tab. 1 as well as item names, each item acronym, arithmetic mean and standard deviation.

4.2 Correlation analysis

Tab. 2 shows the results of correlation analysis: correlation between transformational leadership items, financial items and new product development items. Results are related to the total sample $N=127$ respondents, and Pearson correlation was used. Statistically significant correlations are marked as follows: $*p < 0,05$, $**p < 0,01$. Although there are some significant correlations at the level of $p < 0,05$, still it can be concluded that most correlations are statistically significant at the level $**p < 0,01$.

Table 2 Pearson's correlation coefficient between dimensions of transformational leadership and dimensions of economic performance

	FP1	FP2	FP3	FP4	FP5	FP6	FP7	FP8	FP9	FP10
L1	.145	.268**	.187*	.260**	.252**	.068	.281**	.196*	.257**	.363**
L2	.272**	.357**	.247**	.378**	.303**	.254**	.312**	.226*	.289**	.386**
L3	.312**	.346**	.225*	.331**	.332**	.290**	.256**	.164	.282**	.390**
L4	.207*	.258**	.332**	.375**	.272**	.195*	.300**	.301**	.265**	.244**
L5	.229**	.351**	.290**	.302**	.235**	.236**	.285**	.177*	.330**	.304**
L6	.397**	.449**	.431**	.434**	.444**	.293**	.323**	.292**	.266**	.253**
L7	.451**	.417**	.345**	.453**	.339**	.308**	.296**	.218*	.237**	.360**
L8	.376**	.399**	.381**	.418**	.336**	.316**	.277**	.266**	.182*	.292**
L9	.289**	.273**	.185*	.250**	.300**	.108	.035	.229**	.310**	.231**
L10	.227*	.269**	.266**	.349**	.436**	.244**	.260**	.285**	.231**	.274**
L11	.355**	.413**	.374**	.403**	.384**	.418**	.244**	.295**	.325**	.325**
L12	.331**	.377**	.315**	.353**	.334**	.303**	.289**	.161	.143	.228**
L13	.087	.057	.203*	.135	.247**	.116	.322**	.222*	.137	.200*
L14	.148	.133	.203*	.184*	.271**	.146	.384**	.187*	.177*	.225*
L15	.386**	.413**	.362**	.329**	.307**	.320**	.219*	.131	.240**	.297**

5 Discussion

According to the results shown in Tab. 1 referring to transformational leadership items (MLQ), it is evident that the highest arithmetic mean of the item has L3 - inspirational motivation and optimistic performance regarding the future, with an average of 2,6614. This result is good, but one should be careful, since the optimistic performance may contain elements of self-praise and habits from the socialist period to get the sympathy of the followers with motivational and not really justified speeches. There are also other transformational leadership items in this questionnaire that have uniform and relatively high average arithmetic mean. It leads us to conclusion that managers from organisations included in this research have a quite high level of qualities and skills. They use transformational leadership techniques, which prefer constant introduction of positive changes in the business process. Thus, they try to respond adequately to the continuous changes in the business environment, thereby increasing their

competitiveness, and economic performance of the production process and the organization as a whole.

As for the transformational leadership items from questionnaire on organisational effectiveness and the personal manager's effectiveness L6 to L15, it is evident that item L11 has the highest arithmetic mean - emphasizing the long-term impact, with an average 4,9055, and the item L10 has the lowest arithmetic mean - inducing best in people, with an average of 4,0394. Practically, top managers are more focused on the tasks and less on people. There should be a balance in a way of paying more significant attention to the people, their needs and feelings. Managers included in this research should work on their self-evaluation with additional education and training in order to improve their personal efficiency in terms of more intense inducing of best human resource's work qualities.

When it comes to financial performance (FP) from the questionnaire on measuring the level of financial performance, it is evident that FP1 - productivity has the maximum arithmetic mean, with an average of 3,0866, which leads to conclusion that the productivity of the business processes of companies included in this study is

relatively high. High productivity is characteristic of the countries from the former Yugoslavia, as a remnant of the past, where at the time of socialism the fulfilment of production plans (production volume) was always pursued, but without a real possibility (and plan) for the sale of what was produced. Furthermore, it should be noted that FP7 - salaries, has the lowest arithmetic mean with the average of 2,2756. It is somewhat logical because the area in which this research was conducted (Bosnia and Herzegovina), is still in the process of transition, and the concept of market economy is still not fully implemented, neither in the state nor in the private sector. Besides, there is still high unemployment rate in Bosnia and Herzegovina, as well as low life standard of citizens.

Finally, financial performance (FP) from the questionnaire on measuring the success of new product development (NPD) is the following: FP8 - commercial (financial) success of new products in the past; FP9 - technical success of new products in the past; FP10 - customer satisfaction of new products in the past. It is evident that the arithmetic mean is quite high and balanced indicating that the success of new product development, its commercial and technical success, as well as user satisfaction with a new product, are on relatively high level.

Tab. 2 shows that in most cases there are significant positive correlations between transformational leadership items and financial performance items, as well as between transformational leadership items and new product development items, in the companies in Bosnia and Herzegovina. This confirms the hypothesis set in this paper. These results are consistent with existing studies, such as Koene, Vogelaar, & Soeters [71]; Barling et al. [72]; Kodama [26]; Hirunyawipada, Beyerlein, & Blankson [27]; Song & Noh [28].

Out of the transformational leadership items, the strongest correlations have items L6 - vision, orientation towards the future, then L11 - emphasizing the long-term effect, and L7 - willingness to create and introduce changes. This result is logical, because the leaders who aspire to provide their organization good financial and overall organizational performance in a long-term, place exactly these three items in the centre of their attention, which actually represents the very essence of transformational leadership. Its main task is to create and introduce creative change with particular regard to the current way of doing business, highlighting their long-term positive effect in the future.

On the other hand, out of transformational leadership items, the weakest correlation is achieved by the following items: L13 - relaxation and calmness and L14 - receiving feedback coolly and calmly. It is obvious that business success does not come under the conditions of excessive relaxation and tranquillity, so for the achievement of good financial performances the dose of positive tension is needed, which in fact stems from the great desire to achieve excellent business results. The desire and tension lead to greater work commitment, and therefore the performance growth.

From financial performance items, the strongest correlation is realized by these items: FP4 - sales growth, FP5 - competitiveness, and FP2 - profitability. Transformational leadership largely contributes to the improvement of these performances. Leaders can make the biggest impact on these items with their engagement.

With an excellent leadership of the organization, appropriate and timely actions, sales growth and competitiveness are being accomplished, and profitability comes as a result.

On the other hand, out of financial performance items, the lowest correlations have items as follows: FP8 - commercial (financial) success of new products in the past, FP6 - the growth of fixed assets, and FP9 - technical success of new products in the past. Performances related to the development of new products are under less influence of transformational leadership. This is understandable because development and success of new product is influenced by human resources which are in transformational leader's limelight as well as by technical and technological factors of the production process, such as the degree of automation of the production process and so on. Additionally, the success of new products is often influenced by a large number of external factors, to which a leader does not have a lot of influence, such as technological development, market changes, changes in the needs and preferences of consumers and more.

According to the above mentioned statements and explanations, the strongest correlation in the model appear in the case of the following pairs: L7 - the willingness to create and introduce changes and FP4 - sales growth; L7 - the willingness to create and introduce changes and FP1 - productivity; L6 - vision, orientation towards the future and FP2 - profitability; L6 - vision, orientation towards the future and FP5 - competitiveness. Leader's features, such as the willingness to create and introduce changes, owning the vision and orientation towards the future have the major impact and positive contribution to the improvement of financial performance.

6 Conclusion

The research has confirmed the hypothesis that transformational leadership has a statistically significant and positive impact on the financial performance of the companies that were included in this study. Generally, transformational leadership describes how manager leaders can encourage, develop and implement significant changes in the company, in a way to empower followers directing them to changes, likewise they achieve greater quality and efficiency of all business processes in their company. In order to induce positive change, leaders must have certain characteristics and skills, must be a strong role model for their followers (charisma), must have a highly-developed set of moral values, should be competent, reliable, need to know how to create a vision and motivate other people to accept that vision and implement it in practice. In fact, vision is the central point of transformational leadership. During all these processes, transformational leaders are effective in dealing with people while building confidence and encouraging their cooperation with others. With consistent application of known methods and strategies of transformational leadership, managers in charge of the management and development of business processes, have a significant positive impact on the quality of the implementation of these processes, primarily by creating and introducing useful changes, such as the development and introduction of new products. Financial performance of the process is being improved in that way, as well as overall organizational performance. A general conclusion of this study refers to the need for continuous application of

transformational leadership elements, if better performance and a better market position need to be achieved in an increasingly competitive and dynamic business environment.

The results signify the importance of transformational leadership for achieving the desirable business performance (financial performance and new product development). It is particularly important for leaders to be willing to create and introduce changes, to have a vision, to be focused on the future and long-term plans and effects. Also, research has pointed to the need for top managers to pay more attention to people, to employees in their companies, with reference to their potentials, abilities and feelings. Therefore, recommendations for top managers in companies in Bosnia and Herzegovina is to become more open to changes, more up to date in implementing them, to work on themselves in order to have better vision and plans, consequently not to neglect their employees, because only they can help their leaders to achieve good vision and plans.

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