

The impact of leadership on organizational performance in small and medium companies in Bosnia and Herzegovina

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ABSTRACT

The main goal of this paper is to determine the status of leadership in Bosnia and Herzegovina and its effects on organizational performance, as well as to determine the effects of leadership in general and LMX leadership on organizational performance (job satisfaction, organizational commitment, mutual trust at work, satisfaction with organizational communication). Communication between leaders and associates, empowerment and organizational commitment of employees are variables that are intensively researched and improved in developed countries based on the research results. No research has been conducted in Bosnia and Herzegovina, even on mutual influence of two basic variables of the proposed research, communication between leaders and associates and organizational productivity. The research that will be conducted as part of this paper is in line with previous proposals of authors who have dealt with similar topics on the need to conduct research of this type in non-Western working environments. Based on the obtained research results, a model will be constructed to influence on positive correlation of leaders, their communication and organizational productivity in Bosnia and Herzegovina. The quality, i.e. the exchange level of leaders and associates was measured with a concise LMX-7 questionnaire intended to associates on a standard 5-point Likert scale. The study should create positive contribution to understanding of leaders' role in organizational productivity in small and medium companies in Bosnia and Herzegovina. Innovating suggested strategies, this study should improve the leaders' program communications between organization/company goals and productivity.

I. Introduction

Leadership in modern organizations/companies is seen as a different approach to the functioning of organizations, whose purpose is to initiate revolutionary changes in the organization, with the ultimate goals of improving the performance of the organization.

Unlike developed countries where a significant amount of research on leadership and employee commitment has been conducted, research in this area is very rare in Bosnia and Herzegovina. Academic engagement in the mentioned area is also very rare. The consequence of the lack of adequate research is basic characteristic not only of leadership and commitment in organizations, but also of most other variables related to leadership. A significant problem is that influential variables and their characteristics are not known, as well as the effects produced by certain categories of organizational behavior.

The characteristics of people, their culture, values, business and work environment differ more or less from country to country. Different economic and cultural conditions can reveal different facts about the nature of important organizational variables, and it is frivolous to stick completely to the results reached in developed countries and to use them as the basis of academic and applied development of theory in Bosnia and Herzegovina and other developing countries where research is lacking.

The subject of this paper is to examine and provide quality data on a small part of extremely broad phenomenon of leadership and its impact on organizational commitment of employees, one of the basic variables for the successful functioning of modern organizations.

Communication between leaders and associates, empowerment and organizational commitment of employees are variables that are intensively researched and improved in developed and developing countries based on research results (Erceg et al., 2020; Esenyel, 2020; Gordana & Biljana, 2020; Šehić-Kršlak, 2020; Tatić et al., 2020; Isik & Aydın, 2016a,b, 2017, Isik et al., 2016, 2018, 2019a,b; Akan & Isik, 2006).

Many studies have provided evidence that communication between leaders and associates is related to commitment (ex. Gerstner & Day, 1997; Joo, 2010; Kang, Stewart & Kim, 2011; Lee, 2005; Yousaf & Sanders, Torka & Ards, 2011), however, none of these studies provided data on deeper nature and characteristics of this cooperation.

Even in developed countries, there has not been enough research providing an organizational behavior model to be in positive correlation with organizational performance.

2. Research Methodology

The concretization of the research was preceded by the analysis of earlier theoretical and empirical research on the phenomenon of leadership on organizational performance.

1. Theoretical and methodological framework of the research has been set;
2. Operationalization of the research content has been carried out, the duration of the research and the sample size have been determined;
3. Defined elaboration and practical distribution of questionnaires;
4. Method of statistical processing and clear presentation of data (descriptive statistics, correlation analysis, regression analysis).

Based on the conceptualization of the research, the research framework has been conceived to be realized, by application of the following methods.

1. Analytical - synthetic method and content analysis method,
2. Expert method of scientific examination (survey and instrument for collection of desired data);
3. Method of statistical processing and clear presentation of data (descriptive statistics, correlation analysis, regression analysis).
4. The collected research results were processed using the SPSS program.

3. Literature review

Northouse (2012) singled out the four most common traits that characterize almost all definitions of leadership. According to him, leadership can be seen as:

- a process;
- a tool for making an impact;
- a phenomenon appearing in the context of the group and presupposing the achievement of goals.

In general, leadership can be defined as the process of influencing others to understand and agree on what needs to be done and how it should be done, and

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the process of enabling and facilitating individual and collective efforts to achieve common goals (Schermerhorn et al., 2010).

According to House and his associates (House et al., 1999), leadership is the ability of an individual to influence, motivate and enable others to contribute to the effectiveness and success of the organization whose members they are. Drath and Palus (1994) defined leadership as the process of creation of meaning for people's joint activities so that they can understand them and be committed to carry them out. Similarly, Jacobs and Jacques (1990) view leadership as a process of giving purpose (meaningful direction, goal) to a collective effort, and challenging the engagement of a willing effort to achieve a given purpose and goal.

A significant number of authors see leadership as a process of creating and leading of change. For example, for Schein (1992), leadership is the ability to step out of culture "in order to initiate evolutionary processes of change that are more adaptable.

The most important leadership activities are creating, initiating and leading evolutionary processes of change, and the most important characteristics of a leader are creativity, innovation and a positive attitude towards change. There are many theories that explain the complexity of leadership process (Bass, 1990; Rost, 1991; Hickam, 1998; Mumford, 2006).

The impact of leadership on various organizational results and business performance has been the subject of numerous studies (Avey, Avolio & Luthans, 2011; Carmeli, Schaubroeck & Tishler, 2011; García-Morales, & Jiménez-Barrionuevo & Gutiérrez-Gutiérrez, 2011; Barling & Weber; Kelloway, 1996; Ling, Simsek, Lubatkin & Veiga, 2008).

In Russian companies (Elenkov, 2002), transformational leadership positively predicts organizational performance. This impact is stronger than in the case of transactional leadership, but transactional leadership also has positive relationship with organizational and business performance.

Numerous studies indicate a positive impact of high quality LMX leadership on different organizational performance (Ferris & Judge, Chachere & Liden, 1991; Pellegrini & Scandura, 2006; Erdogan & Enders, 2007). Researchers have found that high-quality leader-member exchanges resulted in lower employee departures, higher performance appraisals, better (more positive) attitude towards work, greater attention and support from leaders, more pronounced participation and faster career advancement over a period of 25 years (Graen; UhlBien, 1995, Matias-Reche & Verdu-Jover, 2011), internal communication influences on technological pro-activity, organizational learning and organizational innovation. References (Andersen & Segars, 2001; Yates, 2006) show that improving internal communication provides better financial results for an organization. Similar to the above, a significant number of references confirm the impact of internal (most important) leadership communication on job satisfaction (Kang, 2010; Schweitzer, 1989), which is certainly closely related to the dimensions of mutual trust and organizational commitment. Open communication in the workplace increases productivity and affects employee satisfaction (Irwin & More, 1994). According to Beebe, Blaylock, Sweetser (2009), good communication leads to increased employee satisfaction and motivation. The reference (DiFonzo & Bordia, 2000) indicates feedback, dissatisfaction with work often has an impact on internal communication.

Many studies have examined the relationship between communication satisfaction and employee productivity (Clampitt & Downs, 1993; Pincus, 1986), job performance (Pincus, 1986; Tsai, Chuang & Hsieh, 2009), organizational effectiveness (Gray & Laidlaw, 2004), organizational performance (Snyder & Morris, 1984). Satisfaction with communication also affects employee job satisfaction, commitment and work motivation (Varona, 1996; Orpen, 1997). Dissatisfaction with communication can cause stress in employees, absenteeism, poor feedback, burnout, and a high rate of abandonment (Ahmad, 2006). In addition, satisfaction with communication plays an important role in the development of job satisfaction in an organization and is a significant predictor of various aspects of organizational behavior (Nakra, 2006; Carriere & Bourque 2009). A synthesis of several theoretical approaches to the concept of organizational commitment was offered by Mayer and Allen (Meyer, Allen, 1991, 1997) who proposed a conceptual model of organizational commitment presented through three components, the known three-component model: (1) affective; (2) continuous; and (3) normative commitment. This comprehensive model has been empirically validated in various contexts (Vandenbberghé & Tremblay, 2008). The consulted literature in this area indicates the fact that affective organizational commitment is of the greatest benefit to the organization and that it is positively related to the desirable behavior of employees (Meyer et al., 2002; Meyer, Allen, 2004). It has a positive effect on employee impact on relevant organizational outcomes (Vandenbberghé & Tremblay, 2008; Meyer et al., 2002; Mathieu & Zajec, 1990; Allen & Meyer, 1996).

4.Results of organizational commitment

Different levels of commitment can have different outcomes. Meyer and Allen Topolnitsky (1998) believe that conditions leading to changes in the nature of commitment can have significant implications on employees' morale, motivation and performance and ultimately on the success of the organization.

Angle and Perry (1981) argue that the definite desire of a dedicated member to retain membership in an organization has a clear relationship with the motivation to participate. They also found solid evidence in their research for the claim that there was an inverse relationship between organizational commitment and fluctuation (Angle & Perry, 1981), that was corroborated in various other studies (ex. Meyer; Allen, 1997; Meyer et al., 2002; Ostroff, 1992; Porter et al., 1974; Rusbul & Farrell, 1983; Steers, 1977).

Job satisfaction is a variable that has a special relationship with organizational commitment. Some authors discuss whether job satisfaction is the cause or outcome of commitment, either input or output. Many of them agree that these two variables have a mutual influence, while some authors call them correlated variables (Meyer et al., 2002). Organizational commitment and job satisfaction can have similar outcomes such as lower turnover rates, absenteeism, higher motivation, participation, better performance.

5.Quality of exchange between leaders and employees

The quality, i.e. the level of exchange between leaders and associates was measured with a concise LMX-7 questionnaire for associates (Graen & Uhl-Bien, 1995; Scandura & Graen, 1984) on a standard 5-point Likert scale. Identical questionnaires were distributed to all respondents and there was no differentiation between leaders and followers, given that the focus of the research was on employees as followers (associates) and not on leaders (i.e. how they evaluate their leadership and exchange with their followers), and how as members they generally evaluate the exchange with all their leaders and what impact the perceived exchange has on their commitment. The field of interest of the research is not the individual leader-follower relations, but the general situation. Employees were asked to assess the level, i.e. the quality of the exchange relationship with all their leaders.

The variable measured in this case is the level of exchange of information in communication of employees and leaders. The LMX-7 questionnaire is one-dimensional and, as the questionnaire label itself indicates, it includes seven items with a different default answer scale for each question. This questionnaire has been validated in a large number of studies (see: Graen & Uhl-Bien, 1995; Greguras & Ford, 2006; Konja, Grubic-Nesic & Lalic, 2012; Maslyn & Uhl-Bien, 2001; Scandura and Graen, 1984; Zhong et al., 2011) and it is the most accepted questionnaire to measure the exchange between leaders and followers (LMX).

Table 1. Component matrix quality of the relationship between a leader and a successor

Item	Component saturation
Evaluate the relationship with your leader	0,820
How well your leaders understand your problem and your needs at work?	0,840
The extent to which your leaders recognize your potential	0,824
Do you know how satisfied your leaders are with you?	0,763
I have enough confidence in my leader and I support all his decisions.	0,842
Your leaders have enough formal authority.	0,866

Source: *Author's research*

The representativeness of items according to Kaiser's KMO criterion is high 0.920. The reliability of the questionnaire is high Cronbach alpha 0.90. All component saturations are above 0.76. The components have the highest saturation: six, five, two.

Table 2. Component authorization matrix

Item	Component saturation
I am confident in my ability to perform work tasks.	0,630
I have control over events in my department.	0,512
I mastered the skills.	0,385
I am independent doing my job.	0,761
My personal contribution at work is significant.	0,630
The job I do is important to me.	0,742

Source: *Author's research*

Factor analysis determined that this part of the questionnaire could be treated as four-dimensional. This was determined by separating the control of events in the ward as a pre-rotation factor $A = 5.12$ and a post-rotation factor 3,587.

Table 3. Matrix for a four-dimensional variant of authority

Item	Control of events in the department	Self determination	Influence	Saturation
I am confident in performing work tasks.	0.955	0.055	0.066	0.079
I have control over events in the department.	0.889	0.024	0.022	0.067
I mastered the skills.	0.918	0.124	0.009	0.779
I am independent doing my job.	0.33	0.838	0.116	0.859
The job I do is important to me.	0.66	0.944	0.780	0.114

Source: Author's research

Pearson's correlations between the factors are significant and quite high. The highest one is between self-determination and influence. If a three-dimensional solution was made, these two sub-scales would merge into one. This means that the three-dimensional solution would implicate three sub-scales of questionnaires, i.e. three variables. The first variable would be the importance of the job, the second one would be the independence in doing the job, while the third one would be self-determination and mutual influence.

Table 4. Descriptive statistics of the leadership dimension LMX job satisfaction, communication satisfaction and mutual trust

Dimension	Abbreviations	N	Min	Max	Mean	St.dev.	Cronbach alfa
Transformational behavior of leaders	L1	100	1.000	7.000	4.583215	1.34200	0.865
High performance expectations	L2	100	1.000	7.000	4.873112	1.24520	0.963
Encouraging leader behavior	L3	100	1.000	7.000	3.18452	1.67451	0.889
Rewards as part of incentive behavior	L4	100	1.000	7.000	4.234141	1.45002	0.923
Punishments as part of criminal conduct	L5	100	1.000	7.000	4.03225	1.32431	0.945
Exchange leader - member	LMX	100	1.000	5.000	3.98231	1.45620	0.919
Wage	JS1	100	1.000	6.000	2.76899	1.25632	0.875
Advancement	JS2	100	1.000	6.000	3.18975	1.23400	0.891
Supervision	JS3	100	1.000	6.000	3.89723	1.17652	0.921
Additional privileges	JS4	100	1.000	6.000	3.12677	1.17823	0.835
Possible rewards	JS5	100	1.000	6.000	2.98810	1.26578	0.842
Operational procedures	JS6	100	1.000	6.000	3.10230	0.87654	0.701
Associates	JS7	100	1.000	6.000	4.12300	0.98983	0.723
Nature of work	JS8	100	1.000	6.000	4.32010	1.04520	0.865
Communication	JS9	100	1.000	6.000	4.21022	0.89903	0.675
Organizational perspective	CS1	100	1.000	10.000	5.42100	2.09880	0.767
Communication with superiors	CS2	100	1.000	10.000	6.23301	2.33400	0.823
Communication climate	CS3	100	1.000	10.000	6.00200	1.88920	0.985
Personal feedback	CS4	100	1.000	10.000	5.89930	1.89923	0.845
Horizontal and informal communication	CS5	100	1.000	10.000	5.23300	1.77820	0.812
Media quality	CS6	100	1.000	10.000	6.13890	1.65562	0.832
Organizational integration	CS7	100	1.000	10.000	5.89932	1.83401	0.886
Confidence in the intentions of colleagues	ITW1	100	1.000	7.000	4.78820	1.34002	0.987
Confidence in the intentions of management	ITW2	100	1.000	7.000	4.21980	1.53201	0.967
Confidence in the actions of colleagues	ITW3	100	1.000	7.000	4.53002	1.342100	0.875
Confidence in the actions of managers	ITW4	100	1.000	7.000	4.2350	1.655200	0.899
	Valid N	100					

Recently calculated Cronbach's Alpha coefficient is also one of the most frequently used coefficients for determination of reliability of measurement scales. The presented values show that the dimensions included in the research have adequate reliability. Based on the obtained research results shown in the previous table, it can be stated that the managers of companies in Bosnia and Herzegovina have high expectations of results, while employees' salaries are not seen as a significant factor in organizational success. The correlation and the largest relationship between the variables will be shown below with correlations.

Table 5. Correlation analysis leadership, LMX, job satisfaction, communication satisfaction, mutual trust at work

	JS1	JS2	JS3	JS4	JS5	JS6	JS7	JS8	JS9
L1	.450	.430	.566	.340	.504	.290	.189	.286	.345
L2	.107	.034	-.020	.004	.135	.123	.034	.053	-.015
L3	.543	.510	.618	.453	.543	.387	.450	.450	.450
L4	.564	.665	.549	.540	.634	.427	.432	.343	.412
L5	.567	.512	.872	.284	.675	.580	.286	.503	.509
L6	.812	-.030	-.031	-.200	.085	.110	.030	.209	-.022
LMX	.675	.654	.723	.612	.723	.765	.630	.510	.586

Source: Author's research

6. Discussion

Table 4 shows the results of descriptive statistics of the leadership dimension LMX, job satisfaction, communication satisfaction and mutual trust. The analysis of relation between the organizational commitment and the organizational performance is very significant in this research paper.

The analysis revealed a significant positive correlation between LMX and organizational commitment observed as a whole (main scale), and between LMX and the sub-scales of organizational commitment, commitment to the values of the organization and mutual trust expressed through information exchange and through open communication.

Respondents who enjoy a high-quality exchange with their leaders are more committed to the values and goals of the organization, i.e. employees with a higher level of LMX are more likely to get engaged in achieving of the values and goals that the organization stands for. Commitment to the values of the organization is equated with affective commitment. Affective commitment is defined as emotional attachment to an organization, identification with the organization, and involvement in the organization. An employee who has a high level of affective commitment stays in the organization because he/she wants to and because it is his/her free will (Allen & Meyer, 1990, 1996; Meyer & Allen, 1997; Meyer et al., 1998).

The strongest connection was found between LMX and the commitment to the values of the organization. These results confirm both the theoretical assumptions and the results of some previous research (ex. Konja, Grubic-Nesic & Lalic, 2012).

The commitment to stay in the organization is another term for continuous commitment and it is related to the perceived costs of leaving the organization. Employees with high level of continuous commitment must remain in the organization, since the cost of leaving the organization would be higher than the benefits of leaving it (Allen & Meyer, 1990, 1996; Meyer & Allen, 1997; Meyer et al., 1998) and they often find it very difficult to leave the organization due to the employer's efforts to make it difficult for them to leave the organization (Meyer & Allen, 1997). Employees with a high level of continuous commitment stay in the organization because for some reasons, most often financial ones, they have to stay in the organization.

Based on the results of the research, it was shown that the dimensions L1 and L2 had the highest average score, expectation of high results, as well as transformational leadership. Dimensions of punishment as a part of criminal behavior, and encouraging behavior of leaders had the lowest score. Therefore, the expectation of high results was not accompanied by encouraging behavior of leaders and the application of rewards. This situation may have been created not only by transitional conditions in Bosnia and Herzegovina, but also by the size of the researched companies, for the fact that small and medium companies are much easier to apply the system of punishment.

Table 5 shows the results of correlation analysis leadership, LMX, job satisfaction, communication satisfaction, mutual trust at work.

The results of the correlation analysis show the strongest connection between the variables of job satisfaction and mutual trust, which is understandable due to the fact that these are mainly small and medium companies that have the character of family businesses and where trust relations are nurtured and job satisfaction is entered into.

Based on the results of the correlation analysis, a strong correlation between organizational commitment and financial results can be observed. Organizational commitment is shown through the dimensions C2 - collectivism and exchange in the 'leader - follower' relationship. This further confirms that interpersonal relationships are important to employees in the companies of Bosnia and Herzegovina, both with superiors and colleagues. This is a significant factor in organizational commitment.

Rewarding - L5, and L1 - the behavior of the main leader has a significant positive impact. To employees, job security plays an important role, expressed through the vision of the company, seen by the leader. Punishment has the weakest effect; it does not contribute to organizational commitment.

The results of the research showed a strong correlation between the salaries and organizational commitment. The salaries motivate employees to increase their commitment to work, and greater commitment to work has a positive effect on employees' productivity hence positively affecting the success of the company.

7. Conclusion

Bosnia and Herzegovina is still in the process of transition. In addition, it is evident that in private sector, business and the use of available resources, primarily human ones, as the key for achievement of defined business goals, is not adequate and in line with good practices.

The above statement was confirmed by this research, because the results of the research show, *inter alia*, that leaders in the companies of Bosnia and Herzegovina have high expectations in terms of performance, without enough understanding, support and empathy for employees. Additionally, the penalties are more common than rewards, the dimensions of leadership are approximately average, and the usage of power is above average.

All this indicates a rather bad image of overall situation, speaking of leadership in the companies of Bosnia and Herzegovina. The research shown in this paper obtained significant results that fully represent new scientific information in Bosnia and Herzegovina. Some relationships between variables that have been previously investigated in other studies in Western developed environments have been confirmed. In addition, some results of previous research have been refuted, but some completely new results have been obtained, that represent a significant contribution to understanding of the links among the three researched variables, exchange of information (communication) between the leaders and the associates, according to LMX model, authority usage and organizational commitment itself. The most significant research results are:

- the existence of the connection between exchange of information (LMX) and organizational commitment as a whole, as well as between the exchange and the components of organizational commitment, commitment to the values of the organization and development of a long-term feeling committed to the organization,

- positive connection of an authority and organizational commitment,
- the existence of positive connection between authority, self-determination and job value on one side and the loyalty to the company on the other side.

Scientific justification of the research is reflected in the obtained results and discussion of the results because in the companies of Bosnia and Herzegovina the level (status) of leadership and the extent (intensity) of its impact on different organizational outcomes and business performance was determined on a representative sample. A significant number of companies from various industries were covered.

8. Suggestion

(1) Based on this research, leaders and managers should be aware of the importance of development of their own leadership competencies and development of quality leadership processes in their company, because they can significantly improve certain organizational outcomes and business performance in their company.

(2) This research shows that leaders and managers have enough space to work on their own self-evaluation and self-improvement through acceptance of new business knowledge and skills.

(3) The research should increase the awareness of leaders on the role and the significance of leadership for business operations of small and medium companies of Bosnia and Herzegovina.

(4) The research results can be of great help to leaders and managers in initiating appropriate actions with the aim of raising the level of organizational outcomes and business performance in their companies, that can ensure growth and development of companies, better competitiveness and market position, and long-term survival of the companies.

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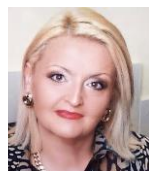
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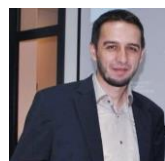


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