

TRANSFORMATIONAL LEADERSHIP, POSITIVE PSYCHOLOGICAL TRAITS, AND FIRM PERFORMANCE

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INTRODUCTION

The present examines the relationship between leaders' positive psychological traits, based on hope theory (Snyder et al., 1991) and optimism theory (Scheier & Carver, 1985), and their transformational leadership behaviors. Specifically, we examine how positive psychological traits and transformational leadership relate to firm performance. We also assess whether the strength and form of these relationships differ between newer start-up firms and more established firms in the high-technology industry. In short, the present study extends research on transformational leadership by examining new determinants of transformational leadership, investigating how transformational leadership predicts organizational-level outcomes, and determining whether the strength of prediction differs across start-up and established firm contexts. It also extends the fields of positive organizational behavior (POB) and positive organizational scholarship (POS) by examining the potential link between leaders' positive psychological traits and their transformational leadership behaviors. Figure 1 provides an overview of the proposed relationships in this study.

Insert Figure 1 about here

Transformational Leadership and Positive Psychological Traits

In light of the recent attention given to positive psychological constructs in leadership (e.g., Luthans & Avolio, 2003), we seek to examine whether two positive psychological traits, hope (Snyder et al., 1991) and optimism (Scheier & Carver, 1985), predict transformational leadership. We focus on hope and optimism, among the many positive psychological traits, based, in part, on Bennis and Nanus's (1999) theoretical articulation of effective transformational leaders as "purveyors of hope and optimism."

Hope. According to Snyder and his colleagues' (1991), hope is a cognitive construct consisting of two components, pathways and agency. *Pathways* reflect peoples' perceptions of themselves as being capable of producing plausible routes to desired goals. *Agency* is a motivational component that propels people along their imagined pathways to goal achievement. These two components work together and are both necessary for successful goal attainment. Hope may be linked to transformational leader behaviors because more hopeful leaders, by definition, are more likely to believe that they can realize change and that they can develop strategies to effect change.

Optimism. Optimism is also likely to lead to higher ratings of transformational leadership behaviors. Optimistic people have a generalized belief that good things, rather than bad things, will occur (Scheier & Carver, 1985). More optimistic leaders are likely to envision and portray a positive future to their followers. Because transformational leadership requires that leaders have a positive and inspirational vision for the future of the organization (Berson, Shamir, Avolio, & Popper, 2001), it seems likely that more optimistic leaders will be more transformational leaders.

Hypothesis 1: When combined, the positive psychological traits of hope and optimism are positively related to transformational leadership behavior.

Transformational Leadership as a Mediator

The positive psychological traits, transformational leadership, and firm performance are theoretically expected to relate to each other in a mediated multivariate model. To date, the only study we found that investigated transformational leadership as a mediator was conducted by Lim and Ployart (2004). The authors found that transformational leadership fully mediated the relationship between leader personality and team performance in the maximum context (i.e., a situation whereby the employee knows he/she is being evaluated and where a desire to perform at one's maximum is explicitly encouraged). Building upon this work, we propose transformational leadership will mediate the relationship between positive psychological traits and firm performance. Drawing from research on psychology that suggests that traits represent the tendency to engage in related behaviors and cognitions, we suggest that positive psychological traits of hope and optimism would jointly have a positive, indirect effect on firm performance through the leader's tendency to engage in transformational leadership behaviors. We believe that transformational leadership would serve as a mediator because transformational leaders require the 'pathways' and 'agency' (the two key components of hope) and the general state of vigor and enthusiasm (key components of optimism) to contribute to setting of and pursuit of high expectations, which are generally linked to a strategic mission or vision of the organization. Our second prediction follows from these considerations.

Hypothesis 2: Transformational leadership mediate the relationship between leader positive psychological traits and firm performance.

Transformational Leadership and Firm Performance in Start-Up and Established Firms

Although many studies suggest a general positive relationship between transformational leadership and firm performance, they have tended to ignore important contextual factors. In this

study, we consider whether there are differences in the relationship between transformational leadership and firm performance for start-up firms and established firms in the high technology sector. Specifically, we propose that transformational leadership will be more predictive of firm performance in start-up firms than in established firms. Several studies seem to support this hypothesis. Bass and his colleagues (2003) found that transformational leadership was more effective in dynamic, complex, or turbulent environments. Similarly, Lim and Ployhart (2004) found that transformational leaders were more effective in maximum performance contexts than in typical performance contexts.

In addition to having empirical support, the idea that transformational leadership has more potential to affect performance in start-up firms than in more established ones has theoretical support. According to Bass (1985) transformational leaders are likely to find more ready acceptance in organizations in which there is receptivity to change and a propensity for risk taking, such is often found in more newly established firms. In contrast, in organizations bound by traditions, rules, and sanctions, leaders who question the status quo may be viewed as unsettling, and therefore, less appropriate for the stability and continuity of the existing structure (Bass & Avolio, 1990). Thus, firms open to creative suggestions, innovation, and risk taking (e.g., start-up firms) may be more conducive to transformational leadership than organizations that are structured, stable, and orderly (e.g., established firms). On the basis of this theoretical reasoning, we proposed the following hypothesis:

Hypothesis 3: The relationship between transformational leadership and firm performance is stronger for start-up firms than for established firms.

METHOD

Sample

The sample was comprised of 105 chief executive officers of technology firms located in the Southwestern United States. The CEOs were separated into two groups: (1) 49 start-up firm leaders and (2) 56 established firm leaders.

Measures

Positive psychological traits. We measured hope using the Trait Hope Scale developed by Snyder et al. (1991). In the present sample, the scale had acceptable reliability ($\alpha = .76$). Optimism was measured using a 6-item scale drawn from the Life Orientation Test (LOT) by Scheier and Carver (1985). The scale had acceptable reliability ($\alpha = .71$).

Transformational leadership. We used 20 items from the Multifactor Leadership Questionnaire (MLQ) Form 5X-short (Bass & Avolio, 2004) to measure transformational leadership. The MLQ scale of transformational leadership is comprised of five components: attributed influence ($\alpha = .81$) and idealized influence ($\alpha = .82$), which together assess charisma/idealized influence; inspirational motivation ($\alpha = .83$), intellectual stimulation ($\alpha = .88$), and individualized consideration ($\alpha = .91$), with a composite reliability of .84 for the combined sample.

Firm performance. The measure of firm performance was performance-to-plan. Data were collected for each year between 2004 and 2006 during which the targeted CEO was in place.

Procedure

Data were collected via survey from leaders and followers at different time periods. Firm performance data were gathered from company records and placed in a database which was maintained by the technology consortium. These performance data were obtained at three points in time.

RESULTS

We tested our hypotheses using structural equation modeling. Results show that the path from positive psychological traits (PPT) to transformational leadership was positive and significant, providing support for Hypothesis 1. Hypothesis 2, which predicted that transformational leadership mediates the relationship between PPT and firm performance, was also supported. Finally, hypothesis 3, which predicted that transformational leadership has stronger effect on firm performance for start-up firms than established firms, was also supported.

DISCUSSION

The aim of the present study was to examine the form and strength of the relationship between leaders' positive psychological traits, their subordinate-rated transformational leadership behaviors, and firm performance in start-up and established firms. Using data collected from and about chief executive officers of technology firms, we found that more hopeful and optimistic leaders from these firms were rated as more transformational. In addition, structural equation modeling results supported our contention that transformational leadership is the means by which CEOs' positive psychological traits (i.e., hope and optimism) may transmit effects on firm performance --- as there was no support for a direct relationship between the CEOs' positive psychological traits and firm performance. Lastly, we found that transformational leadership had a stronger, more positive effect on firm performance in start-up than in established firm contexts.

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