

The impact of transformational and transactional leadership styles on organizational innovativeness

Утицај трансформационог и трансакционог лидерства
на иновативност запослених

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Abstract: Transformational leadership fosters organizational innovativeness by inspiring and motivating employees to challenge the status quo, embrace change, and generate creative solutions. The study aims to demonstrate the effects of transformational and transactional leadership on organizational innovativeness, particularly in the context of companies operating in the Republic of Serbia. The research was conducted among 202 employees in the Republic of Serbia. To ensure internal consistency, reliability analysis was employed, while multiple regression analysis was utilized to assess the influence of the independent variables on the dependent variable. The findings indicate that transformational leadership has a statistically significant positive effect on organizational innovativeness. Conversely, no statistically significant effect of transactional leadership on organizational innovativeness was observed. Future research models could explore the impact of individual dimensions of transformational and transactional leadership on organizational innovativeness. Additionally, it is recommended to investigate the relationship between these leadership styles and organizational innovativeness across different countries. The practical implications suggest that leaders should adopt transformational leadership to enhance organizational innovativeness and promote employee creativity. To the authors' knowledge, no existing studies in the domestic literature have comprehensively examined the effects of both transformational and transactional leadership on organizational innovativeness.

Keywords: Transformational leadership, Transactional leadership, Organizational innovativeness.

JEL classification: M12, D23, O31.

Сажетак: Трансформационо лидерство подстиче организациону иновативност, мотивишући запослене да преиспитују постојеће стање, прихвате промене и генеришу креативна решења. Циљ рада је да испита ефекте трансформационог и трансакционог лидерства на организациону иновативност, посебно у контексту компанија које послују на територији Републике Србије. Истраживање је спроведено међу 202 запослена у Републици Србији. За проверу интерне конзистентности коришћена је анализа поузданости, док је вишеструка регресиона анализа коришћена за процену утицаја независних на зависну варијаблу.

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Резултати показују да трансформационо лидерство има статистички значајан ефекат на организациону иновативност. Насупрот томе, није уочен статистички значајан утицај трансакционог лидерства на организациону иновативност. Будућа истраживања могла би да се баве утицајем појединачних димензија трансформационог и трансакционог лидерства на организациону иновативност. Такође, препоручује се испитивање односа између датих стилова лидерства и иновативности организације у различитим земљама. Практичне импликације сугеришу да лидери треба да усвоје трансформационо лидерство како би унапредили иновативност организације и подстакли креативност запослених. Према сазнањима аутора, у домаћој литератури не постоје студије које свеобухватно испитују ефекте трансформационог и трансакционог лидерства на организациону иновативност.

Кључне речи: Трансформационо лидерство, Трансакционо лидерство, Организациона иновативност.
ЈЕЛ класификација: M12, D23, O31.

Introduction

In the modern economic landscape, the increasing focus on sustainability and effective resource management is driving significant changes in business models (Anufrijev & Dašić, 2024). One of the notable changes is the shift in the concept of leadership, which is widely regarded as a critical factor in motivating members of an organization and effectively mobilizing resources to achieve its goals (Abelha, Costa Carneiro & Cavazotte, 2018). According to Tran (2017), leaders play a crucial role in fostering an organizational culture rooted in trust, motivation, and creativity, which, in turn, enhances overall organizational performance. Additionally, transformational leadership is linked to organizational innovativeness through various characteristics, such as interactive vision, effective communication, and the cultivation of an environment that nurtures innovative teams (Mokhber, bin Wan Ismail & Vakilbashi, 2015). As a result, transformational leadership is recognized as a vital catalyst for creativity and innovation within organizations (Mokhber et al., 2015; Hu, Gu & Chen, 2013; Thuan, 2020). On the other hand, innovativeness can be seen as a major competitive advantage in organizations enhancing their effectiveness and enabling the basis for sustainable development (Zlatanović, Nikolić & Nedelko, 2020). Werlang & Rossetto (2019) emphasize that organizational innovativeness is crucial for companies, as it represents a valuable resource that is challenging to replicate. In a similar context, Hurley & Hult (1998) contend that innovative organizations are proactive in refining their business processes, embracing new ideas, and discarding outdated practices that no longer deliver desired outcomes. Therefore, it is essential to explore how managers can foster innovative behavior among their employees to maintain competitiveness in an evolving environment (Pieterse, Van Knippenberg, Schippers & Stam, 2010).

Although certain studies examine the impact of transformational and transactional leadership on organizational innovation and creativity (Costa, Mariana & Moreira, 2023; Rashwan & Ghaly, 2022; Lukowski, 2017; Jung, Wu & Chow, 2003), to the best of the authors' knowledge, there are no studies that holistically examine the effects of transformational and transactional leadership on organizational innovativeness in domestic literature, which represents a research gap that this study seeks to address. Accordingly, the subject of the research in this paper is transformational and transactional leadership and their relationship with organizational innovativeness. The aim of the study is to demonstrate the

effects of transformational and transactional leadership on organizational innovativeness, particularly in the context of companies operating in the Republic of Serbia.

In light of the defined topic, research objectives, and primary hypothesis, this study employed both qualitative and quantitative methodologies. The study applied qualitative methodology to establish a theoretical basis for quantitative testing of research hypotheses. Data were collected from 202 Serbian employees via a structured questionnaire. Various statistical methods were used for analysis, including Cronbach's α for internal consistency and multiple regression to assess the impact of independent variables on the dependent variable.

The paper is organized into several interrelated sections. The literature review outlines key theoretical constructs related to transformational and transactional leadership, as well as organizational innovativeness. The second section concerns the hypotheses and research model. The third section discusses the methodology, including the development of the questionnaire and the data analysis process. The fourth and fifth sections present the findings of the empirical research, along with a discussion of their implications. Finally, the paper concludes by summarizing the key findings and identifying both the implications and limitations of the study. The expected theoretical contribution of the paper is eliminating the identified gap in the literature, which pertains to the lack of studies in the domestic literature that holistically examine the effect of transformational and transactional leadership on organizational innovativeness. The expected practical contribution of the paper relates to guidance to leaders in Serbian companies to enhance organizational innovativeness by applying a specific leadership style.

1. Literature review

Innovativeness can be defined as the capacity of an organization to adopt a new process, product, or idea (Damanpour, 2018). In other words, it involves the openness of organization members to adopting a specific innovation (Hult, Hurley & Knight, 2004). Organizational innovativeness can also be viewed as a characteristic of organizational culture, indicating the extent to which an organization utilizes new opportunities, specifically introducing and commercializing innovations (Subramanian, 1996). Similarly, Hurley & Hult (1998) describe organizational innovativeness as a component of corporate culture, reflecting a company's tendency and willingness to innovate, experiment with new ideas, and abandon outdated practices. Therefore, it can be concluded that organizational innovativeness is an extremely valuable resource that is difficult for competitors to imitate (Werlang & Rossetto, 2019). Innovativeness provides flexibility to the organization, more efficient meeting of consumer needs (Menguc & Auh, 2006), and sustainable competitive advantage (Calantone, Cavusgil & Zhao, 2002). The need for companies and the economy at large to pursue new ideas and opportunities for improvement, striving to achieve better, more successful, and more efficient ways of doing things than current methods, is a fundamental requirement (Miletić, Ćurčić & Kostić, 2021). To enhance its innovativeness, a company must attain a high degree of creativity (Çekmecelioğlu & Günsel, 2013). Accordingly, Zlatanović et al. (2023) state that there are many factors determining the success of innovation, some of them are stimulating,

while others hinder creativity as the main precondition for innovativeness. Creativity may be defined as a human process leading to a result which is novel (new), useful (solves an existing problem or satisfies an existing need), and understandable (can be reproduced) (Mostafa, 2005), while innovativeness in an organization refers to its capacity to launch new products and penetrate new markets by integrating strategic orientation with innovative behaviors and processes, which highlights its dedication to fostering new ideas, experimentation, and creative initiatives that can result in novel products, services, or technologies (Zlatanović, Nikolić, Potočan & Erić Nielsen, 2023). Therefore, it can be said that creativity is certainly essential for the development of innovations, but these concepts cannot be equated, as innovation goes beyond the phenomenon of a creative product and includes the introduction, launch, commercialization, or exploitation of the product (Zlatanović & Leković, 2024).

Different leadership styles positively influence organizational innovativeness, either directly or by shaping factors like the organizational climate, employee and leader behaviors, or other variables such as learning and knowledge sharing (Alblooshi, Shamsuzzaman & Haridy, 2021). Accordingly, transformational leadership motivates and inspires followers to alter the current state of the organization, while also fostering personal transformation among them to enhance their effectiveness in the leadership process (Aleksic, 2016). Bass (1999) identifies the ability of transformational leaders to motivate their followers, activating higher-order needs, establishing a climate of trust within the organization, and emphasizing the importance of organizational goals over individual ones. Carless & Wearing (2000) indicate that transformational leaders communicate a clear and positive vision of the future, approach each employee as a separate individual, support their growth and development, provide adequate recognition for employees' achievements, encourage different perspectives on business problems, unequivocally emphasize company values, and set an example for company employees through their behavior. Additionally, individuals who possess entrepreneurial initiative and the ability to transform organizations and their members often exhibit attributes such as inventiveness, flexibility, and a willingness to take calculated risks (Janošik, Vukotić & Milenkovski, 2024). Transformational leaders serve as reliable, respectful, and admirable role models for ethical conduct, clearly communicating a vision that inspires others to align with it, questions existing beliefs, and encourages the development of innovation and creativity (Sokolović, Katić, Grubić Nešić, Ivanišević & Pavlović, 2022). Dai, Dai, Chen & Wu (2013) state that transformational leaders contribute to the organization by emphasizing its higher ideals and moral concepts. In other words, followers express a high degree of trust, recognition, loyalty, and respect for managers, feeling that the work they do is truly significant for the organization as a whole (Rust, Zeithaml & Lemon, 2000). Bass (1999) highlights that transformational leadership refers to leaders who motivate their followers through idealized influence, intellectual stimulation, individual consideration and inspirational motivation. Idealized influence involves the leader's ability to highlight the inspirational purpose of the company's business, set an example for employees in the context of organizational values, and emphasize organizational goals over their personal interests (Tajasom, Hung, Nikbin & Sean Hyun, 2015). Okoli, Nnabuike, Adani & Ugbo (2021) state that idealized influence is the charismatic aspect of transformational leadership, which means inspiring a vision for the future while embracing behavior that makes them respectable. In other words, this suggests that leaders have distinct

attributes that distinguish them from others, allowing them to rally people, and motivate others towards a shared objective (Mirčetić, Popović & Vukotić, 2024). Their enthusiasm inspires followers to embrace change and envision a better future, while their risk-taking empowers them to navigate turbulence and build the resilience essential for the organization's survival (Kariuki, 2021). Inspirational motivation refers to how effectively a leader communicates a compelling and motivating vision that resonates with employees (Savovic, 2017). A crucial element in leadership development is the personal bond followers form with the leader, which is common to all followers but particularly noticeable in those facing challenges with personal identity, low self-worth, and a heightened need for reliance on authority (Aleksic, 2016). This arouses excitement by followers to willingly detest the status quo and pursue the envisioned better future enthusiastically (Kariuki, 2021). Intellectual stimulation refers to the leader's capacity to motivate their followers to reconsider existing problem-solving methods, encouraging them to try new methods and approaches (Avolio, Bass & Jung, 1999). Transformational leaders encourage their employees to think critically, setting challenging goals and tasks (Carless & Wearing, 2000). Intellectually stimulating leadership focuses on unlocking and maximizing the potential and abilities of followers (Sokolović et al., 2022), while Stojanović (2016) states that transformational leaders demonstrate creativity and the ability to view problems from various perspectives, challenging conventional thought and existing norms, while continually reassessing knowledge in light of changing circumstances and avoiding uncritical acceptance of others' solutions. Individualized consideration refers to a leader's focus on addressing the specific needs of followers for personal achievement and development (Sokolović et al., 2022). Raj & Srivastava (2016) state that individual consideration enables leaders to build a supportive relationship with their followers by showing concern for their needs and personal affirmation. Transformational leadership is linked to empowering followers by offering personal support, demonstrating empathy, openly sharing emotions with organizational members, and instilling confidence in their capacity to successfully navigate the challenges of change (Aleksic, 2016). Leaders who practice individualized consideration play a crucial role in enhancing employee creativity by actively encouraging them, broadening their knowledge, and offering opportunities for personal growth and development, all while boosting their self-confidence (Teymournejad & Elghaei, 2017).

On the other hand, transactional leadership refers to the exchange between leaders and followers, where both parties satisfy their own interests (Bass, 1999). A transactional leader is pragmatic and results-driven, resistant to change, and focused on goals, while neglecting to empower employees, value their individuality, or encourage creative and independent thinking (Berber, Strugar Jelača, Bjekić & Marić, 2022). Dimensions of transactional leadership include contingent reward, active management by exception, passive management by exception, and laissez-faire behavior (Bass, 1996). Contingent reward is based on exchange theory, where the leader exchanges a reward for expected compliance, using it as a primary instrument of controlling follower behavior (Stojanović, 2007). Also, contingent reward involves leader behavior that emphasizes set requirements and provides followers with material or psychological rewards proportional to the degree of task accomplishment (Bass, Avolio, Jung & Berson, 2003). Rezvani, Khosravi & Ahmad (2012) state that such

leadership entails an investment-reward relationship, where the leader motivates followers by showing them how to achieve set goals and what reward they can expect in return. Similarly, Dai et al. (2013) indicate that transactional leadership is a relationship of economic, political, and psychological exchange between leaders and followers, where the negotiation process is short-term and lacks deeper significance. Transactional leaders reward those followers who manage to achieve previously formulated goals (Ravichandran, Gilmore & Strohbehn, 2007). In other words, transactional leaders strive to accomplish specified tasks, ensuring employee obedience through rewards and punishments (Quintana, 2014). Transactional leaders attempt to support and motivate their followers through contingent reward, providing an environment where desired behavior is rewarded (Natter, Mild, Feurstein, Dorffner & Taudes, 2001). Additionally, transactional leadership involves management by exception, which refers to monitoring performance by managers and taking corrective actions if necessary (Bono & Judge, 2004). The difference between active and passive management by exception lies in the timing of the leader's intervention, where in active management by exception, leaders monitor the behavior of their followers, expect mistakes, and take corrective actions before problems arise, while passive leaders intervene only when follower behavior causes negative consequences for the company's operations (Judge & Piccolo, 2004). Finally, laissez-faire behavior is characterized by a complete absence of leadership, avoidance of intervention and decision-making, with no attempt to motivate or reward followers, leading to increased interpersonal conflicts and levels of workplace stress (Skogstad, 2007).

2. Hypotheses and research model

Transformational leadership fosters organizational innovativeness through several important dimensions, which include inspiring a vision of the future, effective communication between leaders and followers, and creating a supportive environment for innovative teams (Mokhber et al., 2015). Transformational leadership is positively associated with organizational creativity and innovation, as it directly and indirectly influences these outcomes by inspiring teams and fostering an environment conducive to creative thinking and innovative practices (Hu et al., 2013). Transformational leaders succeed in motivating their followers to try out new methods and innovative problem-solving approaches (Rafferty & Griffin, 2004). Mirić, Aničić & Petrović (2023) argue that various forms of forming formal or informal social networks, communities of collaboration, and interorganizational connections, can have a positive effect on their networking and consequently on the innovativeness of the company, which is especially important in the context of the individual consideration and communication skills of a transformational leader. Afsar & Umrani (2020) emphasize that transformational leadership fosters unconventional thinking and problem-solving among employees, which is crucial for enhancing organizational innovativeness and positively impacts employees' innovative work behavior. In other words, transformational leaders stimulate innovative behavior among their followers by presenting a vision of the future, encouraging employees to challenge the status quo, and promoting individual growth and development (Thuan, 2020). This approach encourages followers to utilize their imagination and creativity to transform the current situation and discover more effective ways to complete tasks (Shin & Zhou, 2003). Given that transformational leaders exhibit empathy, tolerance,

and support, followers are able to perceive the risk inherent in the creative process as an opportunity for growth and development (To, Fisher, Ashkanasy & Rowe, 2012). Similarly, many studies show the positive impact of transformational leadership on organizational innovativeness (Gumusluoglu & Ilsev, 2009; Jung et al., 2003; Mokhber et al., 2015; Qu, Janssen Shi, 2015). Additionally, Al-edenat (2018) identifies a statistically significant impact of all four dimensions of transformational leadership (idealized influence, inspirational motivation, intellectual stimulation, and individual consideration) on organizational innovativeness. Matzler, Schwarz, Deutinger & Harms (2008) identify a positive statistically significant impact of transformational leadership on the innovation of small and medium-sized enterprises. Similarly, Khalili (2016) demonstrates a statistically significant impact of transformational leadership on the innovation and creativity of employees. Based on the analyzed impact of transformational leadership on organizational innovation, the following hypothesis is formulated:

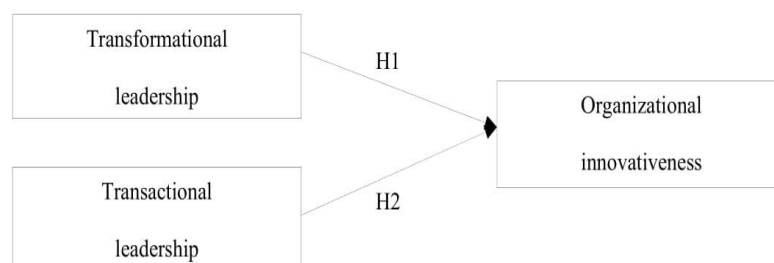
H1: Transformational leadership has a statistically significant impact on organizational innovativeness.

Jia, Jin, Liang & Qian (2018) argue that transactional leadership diminishes the innovative performance of a company and does not contribute to the process of organizational learning. Transactional leaders employ a classical type of management, whereby they do not attempt to use new methods or approaches to problem-solving (Lukowski, 2017). In fact, transactional leaders strive to establish control to the greatest extent possible in order to avoid the risks associated with daily activities (Jia et al., 2018). Pieterse et al. (2010) contend that transactional leadership has a negative impact on employee innovation precisely because it focuses more on performance enhancement rather than stimulating innovative behavior. Dai et al. (2013) state that transactional leaders restrict the development of employees' innovative and creative abilities, thereby slowing down both personal and organizational growth. In other words, transactional leadership is important for achieving short-term goals and increasing organizational efficiency; however, such an approach limits the creativity of employees (Alblooshi, Mohammad & Salah, 2020). Similarly, Costa et al. (2023) show a negative impact of transformational leadership on employee innovation, while Rashwan & Ghaly (2022) do not find a statistically significant impact of transactional leadership on employee innovation. Accordingly, the following hypothesis is proposed:

H2: Transactional leadership does not have a statistically significant impact on organizational innovativeness.

In Figure 1, the research model is displayed, illustrating the assumed relationships between the variables under study.

Figure 1: Research model



Source: Authors' research

3. Methodology

The scales employed to assess the relevant variables in the research model were selected based on a comprehensive review of the literature. Each of the three variables was measured using a different number of statements. The Transformational Leadership variable was evaluated through fourteen statements, for example: *The leader clearly understands the direction in which the organization is moving* (Rafferty & Griffin, 2004; Avolio et al., 1999). For the Transactional Leadership variable, eight statements were used, for example: *The leader expresses visible dissatisfaction if my performance is low* or *The leader directly and clearly lets me know when my performance is poor* (Dai et al., 2013; Alavi, Ehlig & Habel, 2022). The Organizational Innovativeness variable was assessed with eleven statements, for example: *The work environment values and encourages the ability to perform tasks in a creative manner* or *The company is open to taking risks* (Mohamed, 2016; Werlang & Rossetto, 2019; Scott & Bruce, 1994). Respondents rated their agreement on a five-point scale, where 1 indicated strong disagreement and 5 represented complete agreement.

To identify the statistically significant impact of various factors of transformational and transactional leadership on organizational innovativeness, empirical research was conducted from February 1 to March 10, 2024, across the Republic of Serbia. A survey method was used to collect primary data and gauge employees' attitudes toward transformational leadership, transactional leadership, and organizational innovativeness. This method included online interviews, with a questionnaire as the primary instrument. The survey was distributed online to 81 companies operating in the Republic of Serbia, and employees from 53 companies completed the survey. They were informed in advance that their participation was part of a research study and that their responses would be kept confidential, ensuring voluntary participation.

Data analysis was performed using the Statistical Package for Social Sciences (SPSS 13.0). The internal consistency of the statements measuring the variables in the model was assessed using Cronbach's α coefficient. Multiple regression analysis was employed to evaluate the main effects, where *Transformational Leadership* and *Transactional Leadership* were treated as independent variables, while *Organizational Innovativeness* served as the dependent variable.

4. Research results

The sample structure is outlined in Table 1. Of the 202 employees out of 53 companies, 55.9 percent (113 individuals) are female, and 44.1 percent (89 individuals) are male. The majority of respondents fall within the 26-45 age group (67.3 percent), while 30.7 percent are between 18 and 25 years old, and only 2 percent are aged 46 or above. In terms of education level, 45 percent of respondents have completed higher education, 45.5 percent have finished college or undergraduate studies, and 9.4 percent have completed high school. Additionally, 79.7 percent of participants hold non-managerial roles, while 20.3 percent occupy managerial positions. Most respondents are employed in manufacturing companies (53 percent), with the IT sector being the most represented within this category.

Table 1: Sample structure

Gender		Number	Percentage
	Female	113	55.9%
	Male	89	44.1%
	Total	202	100.0%
Age		Number	Percentage
	From 18 to 25 years	62	30.7%
	From 26 to 45 years	136	67.3%
	Over 45 years	4	2%
	Total	202	100.0%
Education level		Number	Percentage
	Completed high school	19	9.4%
	Completed college/university	92	45.5%
	Completed higher levels of study	91	45%
	Total	202	100.0%
Income level		Number	Percentage
	Below 60.000 dinars	16	17.9%
	Between 60.000 and 90.000 dinars	47	23.3%
	Above 90.000 dinars	139	68.8%
	Total	202	100.0%
Position		Number	Percentage
	Managerial position	41	20.3%
	Non-managerial position	161	79.7%
	Total	202	100.0%
Length of employment in the company under consideration		Number	Percentage
	Less than one year	51	25.2%
	Between 1 and 5 years	121	59.9%
	More than 5 years	30	14.9%
	Total	202	100.0%
Type of company		Number	Percentage
	Manufacturing company	107	53%

	Service company	95	43%
	Total	202	100.0%

Source: Authors' research

Table 2 presents the results of the reliability analysis. The reliability of the variables in the research model, or the internal consistency of the statements used, was assessed using the *Cronbach's α* coefficient. All variables (Transformational Leadership, Transactional Leadership, and Organizational Innovativeness) have values above 0.70, indicating a high level of reliability, which is in line with Nunnally's (1978) recommendation that Cronbach's α should exceed 0.70 to be considered reliable.

Table 2: Reliability analysis

Factors	Cronbach's α
Transformational Leadership	0.931
Transactional Leadership	0.706
Organizational Innovativeness	0.919

Source: Authors' research

Testing the effect of independent variables on Organizational Innovativeness was conducted using multiple regression analysis (Table 3). It can be concluded that the Transformational Leadership variable has a statistically significant impact on Organizational Innovativeness, supporting hypothesis H1. On the other hand, the Transactional Leadership variable does not have a statistically significant impact on Organizational Innovativeness, also supporting hypothesis H2. Furthermore, there is no indication of multicollinearity, as all VIF values are under 5 (Shrestha, 2020).

Table 3: Multiple regression analysis

Independent variables	β	t	Sig.	VIF
Transformational Leadership	0.531	8.871	<0.001	1.038
Transactional Leadership	0.100	1.676	>0.01ns	1.038

Source: Authors' research

*** $R^2=0.313$; $F=45.260$ ($p<0.001$)

5. Discussion

The results of the multiple regression analysis show a positive, statistically significant impact of transformational leadership on organizational innovativeness, which is consistent with previous research. For example, Karimi, Ahmadi Malek, Yaghoubi Farani & Liobikienė (2023) demonstrate a statistically significant impact of transformational leadership on employee innovative behavior in developing countries. In this context, leadership plays a vital role in steering organizations through transformation by reassessing current structures, fostering a culture of change, and guiding individuals to embrace new mindsets, knowledge, attitudes, and work methods, while leveraging managerial skills to integrate innovative digital knowledge-based resources with existing organizational assets (Schiuma et al., 2024). Similarly, Alwahhabi, Dukhaykh & Alonazi (2023) show a statistically significant impact of

transformational leadership on innovativeness and employee commitment in the workplace, while Alzghoul, Khaddam, Alshaar & Irtaimh (2023) argue that leaders who foster knowledge acquisition among their employees influence greater organizational innovativeness. When employees feel empowered within an organization and perceive value and meaning in their work roles, they are more likely to experience intrinsic motivation, which drives them to make a positive impact, foster innovative behaviors, and successfully complete tasks, ultimately contributing to the overall success of the organization (Pham et al., 2024). Furthermore, Jung et al. (2003); Bass & Avolio (1994); Qu et al. (2015); Afsar & Umrani (2020) identify a statistically significant association between transformational leadership and organizational innovativeness. Ansari et al. (2024) explain that transformational leaders promote remarkable results through active team participation, inspiring others to develop leadership qualities, with each member contributing to organizational goals, making transformational leadership traits essential for success in increasingly complex projects. In accordance with the results, Saif et al. (2024) highlight that transformational leadership fosters employees' innovative work behavior, as transformational leaders who cultivate a supportive work environment, appreciate employee contributions, and reward innovation are more likely to inspire and motivate employees to engage in innovative work behavior. Additionally, numerous studies show a statistically significant impact of individual dimensions of transformational leadership on organizational innovativeness (Tajasom et al., 2015; Shafi, Lei, Song & Sarker, 2020; Sethibe & Steyn, 2017; Sandvik, Croucher, Espedal & Selart, 2018; Karimi & Morshedi, 2015).

However, the conducted research collectively examines the influence of both transformational and transactional leadership on organizational innovativeness. The results of the multiple regression analysis indicate that transformational leadership is more conducive to fostering organizational innovativeness than transactional leadership, which is consistent with previous research (Pieterse et al., 2010; Prasad & Junni, 2016; Costa et al., 2023; Rashwan & Ghaly, 2022). The transactional leadership style, which focuses on contingent rewards, tends to build short-term relationships between employees and employers, and while it may produce similar outcomes to certain aspects of transformational leadership, it can disrupt healthy leader-follower dynamics and create discord if not carefully managed (Wuryaningrat et al., 2024). Bass et al. (2003) state that transactional leadership negatively affects employee creativity and motivation to propose new ideas. In accordance with the result, Masenya & Ngoepe (2024) state that transformational leadership, with its focus on relationship-oriented behaviors, has been found to have a greater impact on employee retention than transactional leadership, which emphasizes task-oriented behaviors. Also, Catherin et al. (2025) found no significant correlation between the transactional leadership style and employee performance, suggesting that this style is not ideal for employees who are looking for inspiration and personal growth. Additionally, Howell & Avolio (1993) identify a negative impact of transactional leadership dimensions (contingent reward, active management by exception, and passive management by exception) on organizational innovativeness. However, Alavi et al. (2022) prove that the transactional leadership style is more effective than the transformational style in certain cases, such as crisis situations characterized by high uncertainty.

6. Conclusion and implications

Starting from the set research goal, the obtained results indicate the following relevant conclusions. The results of the empirical research show a positive, statistically significant impact of transformational leadership on organizational innovativeness. Simultaneously, the study did not identify a statistically significant influence of transactional leadership on organizational innovativeness.

The conducted research contributes to the existing literature because there are no studies in the domestic literature that holistically examine the effects of transformational and transactional leadership on organizational innovativeness. The proposed model features a distinctive structure, as few studies examine the concurrent impact of transformational and transactional leadership on organizational innovativeness, which enhances the originality of this research. In this context, the findings outlined in the paper highlight conditions under which the application of a particular leadership style can enhance organizational innovativeness. The results also allow for the formulation of both theoretical and practical implications.

The theoretical contribution of the paper lies in eliminating the identified gap in the literature. In practical terms, the research can provide guidance to leaders in Serbian companies. For practitioners, the findings highlight that the adoption of transformational leadership can substantially enhance creativity and employee engagement, which are pivotal in navigating the complexities of today's competitive environment. It is imperative for leaders to emphasize continuous learning while cultivating a culture that encourages experimentation and the acceptance of calculated risks. Furthermore, organizations should invest in comprehensive leadership development initiatives to equip leaders with the competencies required to foster innovative thinking and create an environment in which employees are empowered to contribute meaningfully. This approach involves engaging with employees by recognizing their individual needs and aspirations while valuing their opinions in important decision-making processes. Leaders should actively cultivate curiosity among their team members, urging them to explore problems from multiple perspectives. Various creative thinking techniques can be employed to evaluate all alternatives before dismissing any ideas. Effectively communicating the organization's vision and core values can further inspire employees to pursue shared goals and explore diverse problem-solving methods. It's essential for every employee to understand the organization's aspirations, while leaders should reinforce through their actions and discussions that each individual plays a crucial role in driving change and enhancing business performance. Conversely, relying on transactional leadership—characterized by contingent rewards, management by exception, and laissez-faire attitudes—can hinder efforts to boost organizational innovativeness. Adopting a more empowering leadership style is likely to boost creativity and employee engagement, ultimately enhancing the organization's competitive advantage in a dynamic market. Managers should shift their focus away from employees' mistakes and instead foster an environment that embraces experimentation and learning from failures. This shift towards a culture of innovation can promote psychological safety, encouraging employees to share bold ideas without fear of negative consequences. Additionally, rewards

should not be tied to specific tasks but should be framed within the broader context of the creative process, assessing the entire journey of idea generation and development rather than merely its execution. This approach not only fosters creativity but also emphasizes the value of ongoing learning, helping organizations adapt more effectively to emerging challenges. Additionally, this leadership style can enhance employee satisfaction and retention by making individuals feel more appreciated and engaged in decision-making. In the long run, cultivating a culture that prioritizes innovativeness and creative thinking can play a key role in ensuring organizational sustainability and long-term success. At the same time, organizations that emphasize creativity and innovativeness play a vital role in stimulating economic growth and fostering social development by advancing progress across multiple industries. As more organizations adopt transformational leadership, the potential for enhanced workforce inclusion and diversity increases, as employees are empowered to contribute their distinct viewpoints. This inclusive leadership approach can extend its positive impact on society by fostering collaborative efforts to address complex global challenges.

The main limitation of this research is its focus on the Republic of Serbia, limiting the applicability to other countries. Future research should analyze the relationship between transformational and transactional leadership and organizational innovativeness in different countries to enable international comparisons and identify practices that could be adapted based on cultural compatibility. Also, it is possible to observe the impact of specific dimensions of transformational and transactional leadership on organizational innovativeness to identify dimensions with the strongest effect. Future research could also explore the long-term effects of transformational leadership on organizational performance, specifically in industries undergoing rapid technological change. Investigating the role of leadership in shaping organizational culture and its impact on employee creativity could also provide valuable insights.

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