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Abstract

This paper intends to theorize about how the specific leadership style affects the organizational adaptation in terms of its external environment through fostering the desired organizational culture. Adaptation success, the dimensions of organizational culture and the executive leadership role in fostering the desired corporate culture conducive to the organizational adaptation process are discussed in this paper. The objective of this paper is to highlight the top executive managers' crucial role and their leadership style in creating such an internal climate within an organization that, in turn, encourages and strengthens the implementation of changes and adaptation to its environment. The limitations of this paper lie in the consideration that this subject matter is discussed only at a theoretical level and that its validity should be proved through practical application.

Keywords: Organizational culture, leadership style, organizational adaptation

1. *Introduction*

The success of any business is closely linked to its ability to adapt its purpose to a volatile environment. In order to adapt and, thus, remain resilient in business, leaders must be continuously mindful of the changes in the environment in which they operate. This paper intends to theorize about how a specific leadership style affects the organizational adaptation to its external environment by building up an organizational culture that will support changes. It also examines the dimensions of the organizational culture and executive leadership at the top management level. Although this paper does not provide any results of empirical research, it can be considered as valuable in providing an initial direction and propositions for future research.

Leadership styles have strong effects on corporate culture because employees tend to act in ways that mirror their leaders. There are many definitions of organizational culture. The most widely used is the one from Schein (1992). According to him, an organizational culture is defined as a pattern of the shared basic assumptions that the group learns as it solves its problems of the external adaptation and the internal integration. The acquired assumptions are proved valid enough to be taught to the new members as the correct way to think, perceive, and feel in relation to those problems. Moreover, he defines organizational culture by dividing it into three levels (Schein, 1985). The elements of the culture from the first level are easily discerned but hard to understand. The second level values are the espoused values. The third and the deepest level in-

volves the elements of culture that are invisible and not cognitively identified between the organizational members. Furthermore, these are the elements of organizational culture which are accepted as they are and are not subject to public scrutiny. Many of these unspoken rules exist without membership awareness. Schein's organizational culture model also provides the frames of reference for creating cultural changes. According to Schein, it is sensible to have discussions with as many employees as possible to discover the underlying backgrounds and aspects of organizational culture. These could serve as a basis for initiating cultural changes. Changes have always been and will remain the only constant that never changes in organizational life. Authors like Kin and Kareem (2015) emphasize that the change is a site thread running through all organizations, regardless of their type, size, location, age or activity that they practice. Theorizing about what organizations should do, not only to survive, but also to be able to prosper in a socio-economic environment that is constantly changing, started after the publication of *The Adaptive Corporation* by Alvin and Heidi Toffler in 1985. In their discussion of different organizations, including their own, they identify several attributes that seem to enable them to adapt to the economic, social, and other shifts that routinely occur around them. Empirical studies (Entin, 1999) have confirmed what the contingency theorists authors argued (Burton, Obel, 1998), namely, that the effectiveness of an organization is influenced by the degree of fit between the requirements of the environment and the characteristics of an organization. Some authors, like Mackenzie et al. (1996), emphasize the dynamic advantage as a crucial advantage in the face of changing environments. Organizations are like organisms: they have to keep evolving if they are to survive. Managing and leading the organization, that is capable of both fast and successful adaptation, certainly requires some new skills. The challenge that all managers face today is the effort that they need to make in order to learn new skills and techniques, particularly in terms of creating and communicating a shared vision and implementing processes that engage their employees in programmes of continuous organizational internal culture development.

The paper is structured as follows: the first part is the introduction, which is, then, followed by the review of a number of references relevant to the concept of the organizational culture and leadership style necessary for leading the organizational adaptation. The paper also describes the propositions on the relationships between the leadership roles in creating the organizational culture, which would contribute to the success of the organizational adaptation process. The discussion, the study limitations and the conclusion are presented in the last part of the paper.

2. *The review of references on leadership, organizational culture and organizational adaptation*

Among the majority of authors (e.g. Schein, 1985, 1992, 1996, 2004; Block, 2003) there is a strong belief that organizational culture can be consciously designed and manipulated and that leadership is a crucial factor in this process (Senge, 1990; Waldman et al., 2001; Vera, Crossan, 2004). It is frequently highlighted by research into leadership and organizations that organizations operate in an increasingly complex and dynamic environment. The previous research into organizational adaptation clearly identified the key role played by organizational culture in the organizational adaptation process (Kets de Vries et al., 2009). Authors like McMillan and Gilley (2009), point out that transformations are increasingly perceived as a critical driver of organizational success as well as an essential factor in creating the organizational competitive advantage. Transformations require leadership. Leaders are frequently expected to take responsibility for the organizational transformation. The conducted empirical research has shown that the role of leaders in the change process has a strong impact on the outcome of the effort invested in change (Higgs, Rowland, 2005). It is necessary to build a corporate culture that both encourages and stimulates changes. The culture can be changed but it is a timely process and, sometimes, a change in leadership is needed. Since managers are drivers of change, they should also possess qualities of true leaders to be able to effect changes. In other words, the top executive task is to create an internal organizational climate that supports their efforts. It is harder to change a culture when there is a perception of *things going well*. The role of leadership in instituting change and aligning culture with strategy is a key element in organizational adaptation. Many authors have described the traits that are necessary for driving the change within organizations (Collins, Hansen, 2011), (Heifetz et al., 2009), (Kotter, 1996), (Kouzes, Posner, 2002). The need for change is ex-

tremely important and provides a balance between innovation and discipline in order to take risks (Collins, Hansen, 2011). Collins and Porter (1996) go even further and introduce into the discussion the role of core ideology and vision as an integral part of any successful organization. From their discussions emerged the conclusion about the importance of harmonizing leadership, strategy, vision, culture, processes and outcomes. The role of mid- and senior-level leaders in driving change is critical according to Dinwoodie et al. (2015)[1]. The same claims are made by Romanelli and Tushman (1985), who argue that the most extreme forms of organizational change require top management involvement: *Only executive leadership can initiate and implement the set of discontinuous changes required to affect a strategic reorientation*. Leaders need to adopt these mental models so they could help them understand the consequences of their behaviour in order to achieve higher goals and effects of their behaviours on multiple objectives and the importance of balancing competing values. Peter Senge (1990), in his book *The Fifth Discipline: The Art and Practice of the Learning Organization,* finds mental models can help us understand why miscommunication happens. According to Johnson-Laird (1983), mental models are representations of reality that people use to understand specific phenomena. They represent deeply ingrained assumptions or generalizations that influence our understanding of the world and, consequently, the manner in which we take action. Since mental models represent assumptions held by organizations and individuals, which determine how an organization thinks and acts, they can be a barrier for organizational learning (Magzan, 2012). Leaders should therefore emphasize the importance of teamwork and collaboration as a primary value in the organization and communication plays a crucial role in these efforts.

3. Types and causes of changes in an organization

Change is a process of modification of an existing organization or its transformation into something new. According to Nadler (1988) change is a transition state from the current state of the organization to its future desired state. Changes in terms of organization represent an extraordinary challenge for managers because of the strong interdependence of the many parts or elements of the system. System elements are interconnected and cannot be individually moved and, because of this, change is complex, challenging and attainable only with the help of many people and thus there is an occurrence of many effects of resistance (Kotter, 2009). Bouchikhi and Kimberly (2003) list three organizational levels or layers in which changes occur: operational, strategic and identity. The operating layer includes changes in organizational structures and processes. The strategic layer includes the change of strategy, mission and vision and the identity layer includes changes in the organizational culture. The causes of change are divided into two categories, namely external and internal sources. An organization can manage its internal resources, but it has to pay attention also to the analysis of external sources on which it has a limited impact. Managers in business organizations are daily faced with numerous challenges of the environment: globalization, internationalization, social responsibility, environmental awareness, technology development, standardization, quality control and others. Some of the challenges create opportunities and others threaten the survival and development of the organization. Such an environment requires the ability to coordinate the organizational elements (identity, culture, strategy, structure, processes, systems, people, technology) both mutually and with the developmental trends of the environment through organizational changes aimed at improving the competitiveness. Furthermore, Judge and Blocker (2008) state that the more resourceful businesses are in a rapidly changing environment, the more able they are to adapt faster and to be more cautious towards changes in their competitive environment. They will be able to adapt more quickly to changing market conditions compared to their competitors and thus achieve competitive advantage. Classification of organizational change can be seen from three viewpoints: causes, processes and content, thus according to causes of organizational change it is divided into adaptation and organizational development. Adaptation is a change triggered by the interaction of the organization and the external environment while the organizational development promotes growth and development within the organization. Organizational change is a process of transition from old, inappropriate organizational solutions, towards new solutions, compatible with the requirements of the business environment. Advances in technology and globalization are making organizations face changes more than ever before and the key contribution to the discipline is to strengthen the importance of hu-

man change management to support projects and initiatives.

4. Change management

Change management is a structured approach to changes in the organization, management and people that occur as a result of changes in the environment and the company over time. The need for recognizing changes as a constant factor further emphasizes the notion that people are afraid of changes regardless of whether they are managers or employees (Belak, 2014). Change management, according to Potss and La Marsh (2004), is "a systematic process of applying knowledge, procedures and resources necessary to reflect the change in the people who will be under its influence". The goal is the successful, organized and methodical implementation of desired business solutions, controlling the influence of change on key people. Change management attaches importance to the management in order to avoid resistance to change by employees and mistakes in leadership created by the belief that change management and leadership ignore the human side of change. From all the aforementioned, we see that the right leadership style of high management is a decisive factor in managing change in the organization.

4.1 Leadership styles in change management

Literature in the field of management usually treats the topic of leadership as one of the basic functions of management. An interesting comparison of management and leadership is given by Northouse (2010) who states that the basic determinant of management is the establishment of order and consistency, while the goal of leadership is to cause change and movement through the creation of a vision, determining strategy, directing and motivating people. From this comparison, we can see the importance of leadership in an organization as the leader is the one who drives the employees, shares with them a common vision and motivates them. This is confirmed by Yukl (2008: 2) who states that "most definitions of leadership reflect the assumption that leadership includes the process by which a person deliberately acts on other people in order to direct, structure and facilitate activities and relationships in a group or organization." Every leader has his/her unique style of leadership and way of dealing with co-workers and accordingly various theories of leadership and behaviour of the leader have been developed. Among the first, the most frequently mentioned is the autocratic and democratic leadership, laissez-faire style of leadership, Likert's systems of leadership, transactional leadership, and as contemporary styles we have transformational leadership, charismatic leadership and transcendental leadership (Sikavica et al., 2008: 486-514; Cardona, Rey, 2009: 146-150). Charismatic leadership is actually considered a part of the transformational leadership (Robbins, Judge, 2009: 440). In the research literature, transformational leadership is most often compared to transactional leadership and below the comparison of these two styles of leadership is shown.

4.1.1 Transactional versus transformational leadership style

By the 1980s, according to Howell and Avolio (1993), the so-called transactional leadership had been primarily investigated. That style of leadership is based primarily on the legitimate power and the power of punishment and reward. In order to spread the earlier knowledge about the theories of leadership, Bass (1985, according to Howell, Avolio, 1993) proposed a theory of transformational leadership relying on Burns's classification of transactional and transformational political leaders from 1978. By introducing readers to the theme of leadership styles, Bass (1990) explains that in recent years very few managers have been relying solely on their legitimate power or the power of punishment that is manifested through the commands and one-way communication, but instead they are in a particular interrelationship (transaction) with their subordinates. The transaction is carried out so that the manager explains to the employees what is expected of them in terms of work, and for the performed work, the employees receive compensation in the form of a bonus for good and penalties for poor performance. However, as further stated by Bass (1990), this style of leadership has proved to be mediocre, especially when it comes to passive management of punishment. Specifically, there are two factors of transactional leadership that differ with respect to the leader's activities and the nature of relations with subordinates: contingent reward leadership and management by exception. Contingent reward leadership, as explained by Bass (according to Howell, Avolio, 1993), is considered to be an active and positive way of communication where

employees are rewarded for meeting agreed targets. The difference between active and passive management of penalties is in the manager's response time. An active manager continuously monitors subordinates to predict the possible errors and, if necessary, immediately takes corrective actions, while a passive manager criticizes and scolds or reproaches when the errors have already been committed by waiting until the task is executed in order to establish that there is a problem. The problem that occurs in the transactional style of leadership, according to Bass (1990) is that it is questionable whether the reward and punishment will motivate the employees, which ultimately depends on whether the manager has power to award them as well if whether employees want the prizes and whether they fear punishment. Raza (2011)[2] explains how a system based on rewards and punishments does not motivate employees to strive more than is necessary. Employees will work just enough to meet the minimum expectations and avoid penalties, but will be in constant fear of losing their jobs, which makes them ineffective because they waste time worrying about the consequences if they do not meet the expectations of managers. In the long run, transactional leadership would very probably prove to be ineffective and counterproductive. As opposed to the transactional style of leadership, Bass (1990) states that transformational leadership gives superior results compared to transactional leadership. Transformational leadership, as explained by Bass (1990), occurs when the manager is expanding and enhancing the interests of employees who become aware of the common mission and accept it, and put general well-being ahead of their own interests. Avolio and Bass (2002) therefore suggested four components of transformational leadership, i.e. the way to achieve excellent results:

1. idealized leadership - transformational leaders are role models (ideals) to their followers who admire them, respect them and trust them, leaders demonstrate and practice high ethical standards;
2. inspirational motivation - leaders demonstrate enthusiasm and optimism, recognize the importance of jobs held by their colleagues, clearly portray goals and delegate tasks required for their achievement;
3. intellectual stimulation - re-review of assumptions, redefining problems, approaching the problem in a new way that can be extremely encouraging to innovation and creativity; employees are encouraged to try new approaches, their ideas are not criticized although they may differ from the ideas of the leader;
4. individual consideration - leaders are mentors to each individual in the effort to realize their full potential with implied mutual communication.

Considering the above-mentioned components of transformational leadership, Bass and Avolio (1994), suggest that the idealized influence, inspirational motivation and intellectual stimulation are factors of charisma, and that transformational leadership alongside charisma includes individual consideration. Therefore, it could be concluded that the transformational leader is typically a charismatic person who has a huge impact on the people around him, including the subordinates. However, if the leader is not charismatic, he must be very good at identifying the individual needs of his followers and intellectually stimulate them to achieve outstanding results and explore their own possibilities of which they previously may have not been aware. The point is that transformational leadership is to "motivate employees to do more than they originally thought possible" (Avolio, Bass, 2010: 31). Writing about transformational leadership, Raza (2011) referred to the way in which leaders use their power. She states that transactional leadership is characterized by the use of power of rewards and punishment, while transformational leaders use primarily the reference power and the power of incentives. Therefore, leaders should be role models. Looking at personality traits based on the Big Five model (openness to experience, conscientiousness, extraversion, agreeableness, and neuroticism) and transformational leadership, Judge and Bono (2000) conducted an interesting study in which they concluded that agreeableness is the strongest and most consistent predictor of transformational leadership qualities. This finding is understandable because agreeableness is mostly associated with charisma, which is the most important component of transformational leadership, and since leadership takes place in a social environment the social skills are very important. Extroversion and openness to experience were also significantly correlated with transformational leadership, in contrast to neuroticism

and conscientiousness for which no link with the characteristics of transformational leaders was established (Judge, Bono, 2000). Considering the difference between transactional and transformational leadership, Raza (2011) finds that transformational leadership tends to innovate and create new opportunities for employees. In such an environment, employees are rewarded when they take the initiative. Transformational leaders use their power of reward to encourage creativity and innovation, while transactional leaders give rewards for the performance of a given task and, in this case, there is no intellectual stimulation because the employees are not encouraged to express their full potential and be critical towards the current state. A characteristic of transformational leadership, according to Burns (in Krishan, 2002), is mutual raising of the value and motivation of both leaders and followers, resulting in their transformation to act towards achieving a common vision and mission beyond the borders of their own interests. Jandaghi et al. (2009) have shown that managers of successful companies show more characteristics of transformational leadership in relation to those of the less successful companies, so we can conclude that transformational leadership in practice gives better results than other styles of leadership. In spite of that, transactional and transformational leadership may not be seen as opposite and mutually exclusive styles. Howell and Avolio (1993) have particularly addressed this issue and concluded that Burns and Bass as the originators of the theory of transformational leadership disagree on this issue. In fact, unlike Burns, based on whose classification Bass developed his theory, Bass's transactional and transformational leadership is not considered opposite as managers, depending on the situation, to a greater or lesser extent, show the characteristics of transactional or transformational leadership. However, an important feature of transformational leaders is that, unlike transactional leaders, they do not consider values, needs, motivations and goals of employees as given and unalterable (Krishan, 2002), i.e. they show their effects through employee satisfaction and level of performance, but transformational leadership does not replace the transactional leadership (Avolio, Bass, 2002). The transformational leader is not necessarily the complete opposite of a transactional one, write Cardona and Rey (2009: 147) stating that the transformational leader is in fact an "enriched transactional leader" thereby wanting to emphasize that the impact of transformational leaders is deeper because it is not focused on the influence exclusively through rewards and punishments but also through their charisma. Pursuant to the above, it can be concluded that managers, especially those with the characteristics of transformational leaders, can use various tools to affect the encouragement, acceptance and management of changes in the organization, which will ultimately be reflected in organizational performance.

5. *The theoretical framework of relationships between leadership style, organizational culture, organizational adaptation and organizational performance*

According to Koenea et al. (2002), the performance is influenced by the internal climate. Their research indicates that the specific internal atmosphere is the only factor responsible for performance success. The research has also highlighted the key role of top managers in creating an either positive or negative working atmosphere. People work better if they are motivated, involved and familiar with the job to be done. So, the important question is, what is it that makes a team productive and successful?

The model presented in this paper implies that business results may be improved when employees work in such a climate that encourages positive energy and a working atmosphere and gives people the feeling that they are a part of the team and the group's success. The top executive leadership style seems to be the most important factor in the creation of such an atmosphere. Both managers and academic researchers believe that organizational culture can be a driver of employee attitudes and organizational effectiveness and performance. Using the appropriate leadership style that encourages such an indoor climate certainly affects the end business results. According to the presented model, the top executive leadership style affects the construction of the organizational culture which will support the adaptation process in such a way that, eventually, an organization is capable of achieving the highest performance. Leadership and culture cannot be considered isolated because only through their joint interaction it is possible to achieve better performance. It could be assumed that each of the individual leadership styles creates a different internal climate. Each leader has his/her own methods of communication, approaches to problem solving, and modes of behaviour necessary to remove

restrictions on the effective flow of knowledge and ideas that is so important to truly understand a rapidly changing environment and adapt to its challenges and opportunities (Vrdoljak Raguž, Borovac Zekan, 2015) The different working environment results in the creation of the various teams which consequently have different final performance results (Figure 1).

Figure 1 The relationship between leadership style, organizational culture, organizational adaptation and organizational performance

Source: Model made by the authors

The organizational culture is influenced by various factors: the organizational history, leadership quality and their personal characteristics. Leaders, through their personalities and specific leadership styles, are capable of influencing the organizational culture. They are able to determine the desired *cultural basis* in the organization, which is fostering the improvement of individuals with values that are desired for an organization and eliminating the ones who underestimate those values. Yukl and Mahsud (2010) claim flexible and adaptive leadership is essential for survival of any company. It can be said that transformational leadership is one of the most inspiring leadership styles, while transactional leadership styles are more interested in maintaining the normal flow of processes and thus do not stimulate change. Transformational leadership is about "changing the organisation's strategies and culture so that they have a better fit with the surrounding environment. Studies have found that a strong culture increases organizational performance only when the cultural content is appropriate for the organization's environment" (McShane, Von Glinow, 2005: 483). An organization which has a stimulating and a healthy internal organizational climate will show better results in adapting to a changing environment and will be able to react faster, once the changes occur. It is expected that this is likely to happen in organizations that have an innovative and supportive culture and are led by transformational leaders, rather than in organizations with a bureaucratic organizational culture that are led by transactional leaders. Transformational leadership is particularly important in organizations that require significant alignment with the external environment. Without transformational leaders, organizations stagnate and eventually become seriously misaligned with their environments. Therefore, it could be emphasized that every organization has its unique organizational culture that is created over longer periods of time and that it can be influenced and changed so that the organizational adaptation process can be initiated and completed within reasonable time. That will ultimately lead to the improved business performance.

6. Discussion, study limitations and conclusion

The objective of this paper is to promote a shared understanding of the nature of the organisational adaptation process and to disclose the role of leadership in those transformations. Previous researches have shown that any change in organization depends on the leaders' ability to share and communicate ultimate goals to employees. Not all leaders have the personal skills and ability of transferring and sharing a common vision. The reason that many organizations struggle with their adaptation process might be that the top executive managers pay insufficient attention to both; the development of their skills and their ability to create and share a common vision. It is also important to mention that frequent and effective communication is particularly important during the process of change and that it is primarily influenced by a specific leadership style. Therefore, after the detailed analysis of references, it can be concluded that the top executive manager leadership style relies and depends on the process of organizational adaptation and change by creating a stimulating organizational culture. Unfortunately, the number of studies that address the effects of the organizational culture and a specific leadership style on the outcome of the adaptation process and, consequently, the creation of the adaptive organization, with emphasis on the creation of a common vision, is insufficient. The authors studied a range of references by mostly English writing researchers, who have studied the influence of leadership style on the organizational culture in their own cultural surroundings, and it is likely to expect that scientific research into leadership styles across different countries will show different results. For instance, if research is conducted in transition countries, it is expected that the results will be the same: the transformational leadership is more prone to changes and it eventually leads to the improved overall performance. In addition, there are many variables that should be considered before making a conclusion regarding organizational culture, such as: norm content, culture consensus and norm intensity, etc. This may inspire further research. Furthermore, the study of organizational culture can be qualitative and/or quantitative. One of the advantages of qualitative methodology is an initial introduction to the problem, which provides the basis for a deeper insight into the new context due to the convergence of the researched phenomena. This paper is exclusively based on the review of the resources that are closely associated with the studied phenomenon and, therefore, the findings are inconclusive and require empirical testing. Despite all the limitations of this study, it could still be concluded that the top executive managers play a key role in the process of creating a stimulating organizational climate that enables the organizational adjustment whose end result is high performance.

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ORGANIZACIJSKA KULTURA I STIL VOĐENJA: KLJUČNI ČIMBENICI U ORGANIZACIJSKOM ADAPTACIJSKOM PROCESU

Sažetak

U radu će se razmotriti kako specifičan stil vođenja utječe na organizacijsku prilagodbu u smislu njegovog vanjskog okruženja kroz poticanje željene organizacijske kulture. Uspjeh prilagodbe, dimenzije organizacijske kulture i uloga vrhovnog vodstva u poticanju željene korporativne kulture koja vodi procesu organizacijske prilagodbe su razmotreni u ovom radu. Cilj ovog rada je istaknuti ključnu ulogu vodećih menadžera i njihovog stila vođenja u stvaranju takve unutarnje klime unutar organizacije koja, pak, potiče i jača provedbu promjena i prilagodbu poduzeća njegovoj okolini. Ograničenja ovog istraživanja nalaze se u tome da se o ovom predmetu raspravljalo samo na teoretskoj razini i da bi njegovu valjanost trebalo dokazati kroz praktičnu primjenu.

Ključne riječi: organizacijska kultura, stil vođenja, organizacijska prilagodba