

Effect of Leadership Styles on Employees' Innovative Behaviour: The Mediating Role of Employees' Creativity

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Abstract

This study investigates the effect of transactional and transformational leadership styles on employees' innovative behaviour. It also seeks to examine the mediating role of employees' creativity in translating different leadership styles into employees' innovative behaviour. Sample of the study consisted of 325 bank employees and their supervisors. Model validation and hypothesis testing was done using structural equation modelling. Findings of the study suggest that transactional leadership style positively influence employees' innovative behaviour directly. Transformational leadership style effects employees' innovative behaviour through employees' creativity. The study shows successful mediating role of employees' creativity between two leadership styles and innovative behaviour. The study implications and future directions are discussed towards the end.

Keywords: Leadership style, transactional leadership, transformational leadership, innovative behaviour, creativity.

Introduction

Business scenarios developed over the last couple of decades have increased challenges for the organizations. The organizations now face the threats of global competition, an increasing customer expectation, technological changes, and an uncertain economic environment. To cope with these challenges, the organizations are encouraging their employee to be innovative. Innovation is described as uniqueness with the development and implementation of new ideas by people (Pierce & Delbecq, 1977). Innovation demands personal involvement of the employees, as they have to use their full potential and perform beyond the expectations (Ramamurthy, Flood, Slatery, & Sardesai, 2005). Gupta and Singhal (1993) found that successful organizations create competitive advantage in the market place through innovations by revealing their employees' creativity. West and Farr (1990) use the term creativity and innovation interchangeably and the difference between these two concepts might be more one of importance than of substance. But Mumford and Gustafson (1988) developed some arguments about these terms; they presented creativity as the production of fruitful and valuable ideas while innovation as the production or adaptation of fruitful ideas and implementation of these ideas in the workplace.

Many researchers (i.e. Mumford, Scott, Gaddis & Strange, 2002; Scott & Bruce, 1994) suggested that innovation plays a fundamental role for the enduring economic performance of an organization. Woodman, Sawyer and Griffin (1993) studied the private organizations and found that creative employees can help organization to stay competitive by capturing new market areas to explore and initiate new business. Creative employees are valuable for organization because they predict new ways to work as a group with citizens. They also know how to deal with pressure groups and how to give mass "more bang for their buck" in a deteriorating financial system (Bekkers & Tummers, 2014). In the past few decades, a number of studies explored that how leadership styles can be influential in stimulating creativity in their employees (De Jong & Den Hartog, 2007; Oldham & Cunnings, 1996; Shin & Zhou, 2003). Given the importance of innovation in this competitive and dynamic global environment, there is a growing need for organization that what sort of leadership style will be adopted that their employees express innovative behavior within their organization. Among the factors that primarily influence employees' creativity, transformational leadership has been identified as the most critical style for creativity (Oke, Munshi & Walumbwa, 2009, Jung, Chow & Wu, 2003). In 2009, Shin and Zhou explored that transformational leadership style has a positive impact on the creative actions of the subordinates and also argue that leaders should be helpful to subordinates in order to enhance creativity (Shalley & Gilson, 2004). When leaders give empowerment to their subordinates, they stimulate intrinsic motivation and creative process management (Zhang & Bartol, 2010). Due to increased competition, it is becoming important for the organizations to transform and go beyond their traditional managerial practices. When compared with transactional leadership, innovation is encouraged with the help of transformational leadership (Howell & Avolio, 1993). Transformational leaders are future oriented, concerned about planning, open minded, and

energetic. The leaders with this style become role models for their subordinates by gaining their trust and confidence. They seek new and unconventional ways of working, build employees morale, and commitment.

Munshi and Walumbwa (2009) found significant positive relationship between transformational leadership style and employees' innovative behavior. Transformational leaders stimulate employees to actively participate in the achievement of organizational goals with the interrelated behavioral aspects like, intellectual stimulation, consideration of the individual and inspirational motivation (Bass, 1990). Moss, Ritossa and Rank (2009) found direct relationship between different components of transformational leadership style and employees' innovative behavior. According to the study conducted by Bass (1985), transactional leadership style negatively effects employees' innovative behaviour, it is suggested by the researchers that although transactional leaders give rewards for the achievement of specific goal, yet due to limitation on them employees do not go beyond their initial expectation in terms of bringing innovative ideas. Lee, Si and Wei (2012) suggested that there is negative association between the transactional leadership style and employee's innovative behavior however it may have positive effect under certain conditions.

Despite the abundance of literature documenting the relationship between different leadership styles and innovative behaviour, there is little evidence of the mediating role of creativity between the leadership styles such as transactional and transformational leadership and employees' innovative behaviour. Also the effect of managerial leadership styles from transformational and transactional perspectives in banks is understudied. The aim of the current study is to check the impact of leadership style on employee's innovative behavior directly and indirectly with the existence of the mediating role of creativity. It also investigates in the banking sector what sort of leadership styles is adopted for enhancing employee's innovating behaviour.

This research provides a deep insight into the banking industry by exploring that what sort of leadership style they would implement for creating fruitful ideas from their employees and also for facilitating the innovation behavior of the employees.

Leadership Style and Creativity

Leadership is one of the most broadly discussed topics by the researchers from all over the world (Kuchler, 2008). Jong and Hartog (2007) described leadership as a process to influence subordinates for attaining desired set of objectives. Leaders assist to encourage, stimulate, support, and identify their followers in order to get key performance outcome (Gill, 2006). Earlier researches on leadership have recognized different types of leadership styles which leaders adopt in managing organizations (e.g., Davis, 2003; Spears & Lawrence, 2003; House, Hanges, Javidan, Dorfman, & Gupta, 2004; Hirtz, Murray, & Riordam, 2007) since leader's ability to inspire, motivate and produce dedication to common goal is crucial for organizational outcomes (Bass, 1997).

Previous studies relate different leadership styles to the employees' innovation process, many of them paid attention for participative or mutual leadership styles (Kanter, 1983, Pelz & Andrews, 1966) and suggested a list of detailed behaviors that the leaders should permit in order to initiate creativity among employees (Amabile, 1988). A number of leadership theories have been proposed but the scholars mostly considered assumption of Leader-Member Exchange (LMX) which is linked with transformational leadership style and innovative behavior of the employees (Basu & Green, 1997; Jung, Chow & Wu, 2003). LMX theory proposed that transformational leaders keep close associations with high level and lower level linked with their subordinates. This study uses LMX theory since previous researches suggested close link between transformational leadership style and innovative behaviour in the workplace (Basu & Green, 1997; Scott & Bruce, 1994).

Transactional Leadership and Innovation

Transactional leadership style is about extrinsic rewards, like promotion of the employee's and such monetary benefits (Jung, 2008). According to Hartog, Van Muijen, & Koopman (1997), the transactional leadership style is a mutual process between the leader and the subordinate, in which reward is closely concerned with the performance of the subordinates. The transactional Leaders are mainly concerned with the set objectives and targets, ability to work, expertise and knowledge which is obligatory to gain the desired set of objectives and goals (Avolio & Bass, 1995). Burns (1978), who was first to explore the transactional leadership style, signifies that the transactional leaders always want to stimulate their subordinates by tempting and appealing to personal compensation. Previous studies have explored the relationship between transactional leadership style and employees creativity. For example, Sosik, Avolio and Kahai (1997) found that transactional leadership had a stronger effect on idea generation effectiveness. Jung and Avolio (1999) examined the relationship between type of leadership (transformational vs. transactional) and creative performance with moderating role of individualistic vs. collectivistic cultural orientation. They found that individualists generated more ideas with a transactional leader.

Aspects of Transactional Leadership Style

Previous researches identify contingent rewards, management by exception (active) and management by exception (passive) as the major aspects of transactional leadership style (Bass & Avolio, 1994; Antonakis, 2003)

(a) Contingent rewards

Leaders set the objectives for their subordinates and once it will be attained, the employees' will be rewarded and compensated against their output (Nicholson, 2007). Contingent rewards are an aspect of a transactional leadership style in which leader must promote a realistic level of participation, devotion to attain higher level of subordinate's performance (Bass, 1985).

(b) Management by exception (Active)

According to Judge and Piccolo (2004), active management leaders investigate the behaviour of the subordinates, give prediction about upcoming and existing problems and take corrective measures before the occurrence of a problem and the unkind cost of the behaviour of the employees. Antonakis et al. (2003) suggested that active leader monitors the performance of the employees and make sure that the set objective should be achieved. Bass and Avolio (1990a) added in the recent versions of the theory "active management by exception" by defining it in terms of looking for mistakes and applying rules to keep away from mistakes. According to active management by exception, leaders develop principles and punish subordinates for any nonconformity with these set principles (Bass, 1985).

(c) Passive management by exception

Passive management by exception theory includes use of conditional penalty and other corrective actions if the performance of the employees is contradicting with the suggested and recommended standards of performance (Bass & Avolio, 1990). Passive leaders take an action after the problem has occurred and set standard are violated. The above conceptualization provides foundation for hypotheses 1 and 2.

H1: Transactional leadership style like (a) contingent rewards (b) active management by exception (c) passive management by exception is positively associated with employees' creativity.

Transformational Leadership and Innovation

For gaining and sustaining competitive advantage, organization must have innovative employees (West & Farr, 1989; Unsworth & Parker, 2003; Janssen, 2003). According to (West & Farr, 1989), employees' innovative behavior connected with employees' commitment pursues superior behavior to improve the productivity level that achieves higher value and competencies for the organization. According to Mumford et al. (2002) the Leader must have such sort of competencies that stimulate the employees to become innovative. Various studies found a positive relationship between the transformational leadership style and employee's innovative behavior (Basu & Green, 1997; Jung, Wu & Chow, 2003; Munshi, Oke & Walumbwa, 2009). Burns (1978) presented the conceptual idea about transformational leadership according to which transformational leadership is referred to as positive attitude towards the employee's that they should be motivated towards the organizational objectives. It expands and inspire the interest of subordinates by generating consciousness and acceptance of ideas, and motivating subordinates for the goodness of the groups (Bass, 1997).

Aspects of Transformational Leadership

Leader can inspire employees' innovative behavior directly by applying four aspects of transformational leadership style (Oke, Munshi & Walumbwa, 2009; Basu & Green, 1997). Avolio, Bass & Jung (1997) presented these four aspects as idealized influence, inspirational motivation, intellectual stimulation and individualized consideration.

(a) Idealized influence

Idealized influence suggests that leaders are supposed to be a stimulating role model (Moss & Ritossa, 2007). Leaders who have a more idealized influence are enthusiastic to take strong actions regardless of dangers and are relatively regular than casual with representation of higher set of values regarding principles and ethical behavior (Bass & Riggio, 2006). These leaders are accepted, appreciated, and trusted by the subordinates to follow their leaders (Bass et al, 2003).

(b) Inspirational motivation

Inspirational motivation describes that the leader provides an attractive and encouraging vision to the subordinates (Judge and Piccolo, 2004). The leader who inspire by motivation, develop such a powerful team spirit that the group must achieve set standards and goals of the organization (Antonakis, Avolio, & Sivasubramaniam, 2003; Bass & Riggio, 2006). According to Bass & Avolio (2004), such leaders encourage their followers to act confidently and communicate without a doubt with their vision and interpretation of the goals that they will be achieved optimistically.

(c) Intellectual stimulation

Intellectual stimulation of employees means that they are motivated member of the organization by problem reformation, thoughts, rational interest, and novel solutions (Oke, Munshi, & Walumbwa, 2009). According to Limsila and Ogunlana (2008), leaders stimulate the subordinates and involve them in the activities which lead them to be creative and innovative in the workplace. In this way the organizational problems are coped with a new viewpoint (Moss & Ritossa, 2007).

(d) Individualized consideration

Individualized consideration means that the leaders provide support, encouragement, and instruction to individual subordinates (2006, Yukl). The leaders typically raise subordinates' self belief to create another solution and then implement it (Mumford, Scott, Gaddis & Strange, 2002). Bass (1985) explored that the subordinates are individually addressed to enhance the desired levels and developed effective ways to meet the challenges and achieving organizational objectives.

Collectively all above four dimensions strengthen the affect of the Transformational Leadership Style on employee's innovative behavior (Jung et al., 2003), providing the base of the first and second hypotheses.

H2: Transformational leadership style like (a) idealized influence (b) intellectual Stimulation (c) inspirational motivation (d) individualized consideration is positively associated with employees' creativity.

Employees Creativity and Innovative Behaviour

According to Harris (1998), creativity is not the ability to create out of nothing but it is the capability to create new ideas by combining, changing, or re-adjusting existing ideas. Some creative ideas are amazing and bright, while others are just straightforward, good practical ideas and yet not anyone can likely to be thought of. Amabile (1988) stressed that creativity is a formation of original and fruitful thoughts and it is an essential part of innovation behavior. Innovative organizations create superior products, services and business processes, improve their performance, and gain competitive advantage through maximizing employees' capability to create new ideas (Jafri, 2010). According to previous researches (Janssen, 2004; Janssen & Yperen, 2004; Chang & Liu, 2008; Cingöz & Akdoğan, 2011), employees' innovative behaviour involves generation, promotion and realization of new ideas to utilize performance of a group and work role for an organization. Therefore hypothesis 5 is stated as

H3: Employees' creativity is positively associated with employee's innovation behavior.

Mediating Role of Employees' Creativity between Leadership Style and Employees' Innovative Behavior.

Innovation means relying on everyone's creativity, this study is proposed by the Wheatley (2001) and also presented that leaders can be more successful in encouraging creativity by behaving organizations as a living system filled with the innovative dynamics. A creative potential enables leaders to undertake and resolve organizational issues. Leaders create followers who are adaptive and attentive to changes in their environment, and able to innovate decisively. Creative leaders hold change and support followers to question why the organization does things in a specific way, and then seek out other ways of doing things (Sonnenberg & Goldberg, 1992). Wheatley (1994) stated innovation as the process of bringing the best idea into reality which generates a series of innovative events. It combines ideas and knowledge into new useful value. Lee (2008) emphasized the motivation of employees for searching better options to improve organizational productivity because the organizational success and long lasting survival is consolidated with the innovative capabilities of employees (Chang, 2013). Transformational leaders have been instituted to create higher set of performance with the generation of ideas and its implementation by their subordinates (Jung, 2001; Jung & Avolio, 2000). They are valued for inspiring creativity (Mumford & Licuanan, 2004; Mumford, 2002). Bass and Yukl (1999) addressed transformational leadership as affirmative addition to transactional leadership in which the relationship is explained with the development of self interest between the leaders and their subordinates. Accordingly, hypotheses 6 and 7 are stated as

H4: Employees' creativity mediates the relationship between transactional leadership style and employee's innovation behavior.

H5: Employees' creativity mediates the relationship between transformational leadership style and employee's innovation behavior.

The path model diagram is given in Figure 1.

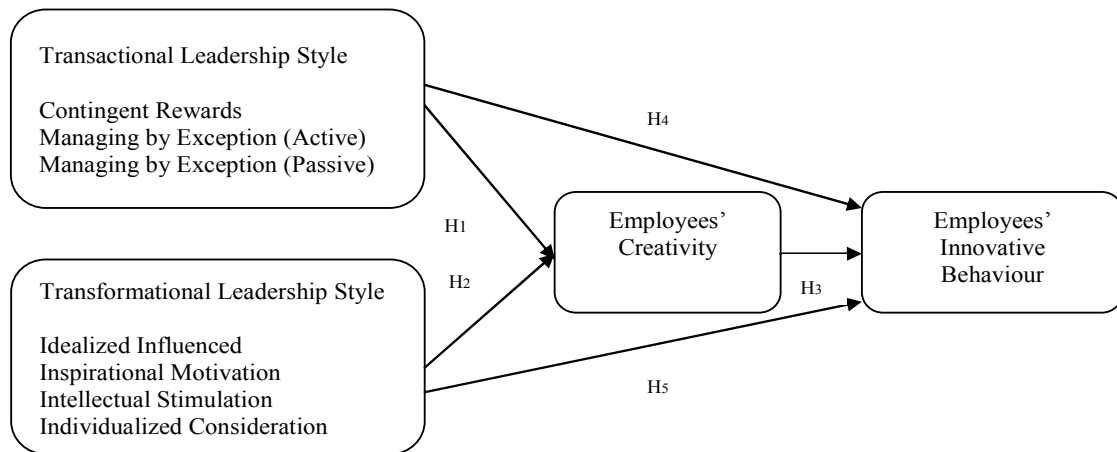


Figure 1: Path Model Diagram

Methods

Population and Sampling

For investigating the relationship between the Leadership Style and employees' innovation behavior and the mediating effect of creativity between these two, data was collected from full-time employees including executives, AVP, managers, branch managers, customer services officers and MTOs working in banking industry in five big cities of Pakistan (1. Islamabad 2. Lahore 3. Multan 4. Faisalabad 5. Karachi). The banking sector was chosen for study particularly because innovation in banking organization has a significant effect on the survival of the industry due to growing technical advancements and extremely competitive markets (Gumunluoglu & Ilsev, 2009). The planned sample was 350 employees which reduced to 325. Among the respondents 152 were female whereas 173 were male. The effective response rate was 92.86%.

The Instrument and Data Collection

Self administered structured questionnaires were distributed using survey technique, among the frontline employees of these banks in each of the selected cities. Questionnaires were divided into two parts, first part is about the leadership style to be rated by subordinates that what type of leadership style is used by their leader. Second part was about checking the impact of Leadership Style on innovation behavior of employees. There were some bipolar questions and the others were rated on five point likert scale. The questionnaires were sent by electronic mail to the employee's of banking sector of Pakistan because in banking sector employees frequently use email for communication. Total 350 questionnaires were distributed in 5 selected city's banks. The researchers took the participants in full confidence that their responses will be used only for research purposes.

Measures

The scales used for each and every variable were derived from previous studies.

Table 1

Sources of Instrument

Variables	Dimensions	Source
Transformational Leadership	Idealized Influence	(Bass & Avolio, 2000), (Stuart, 2005) MLQ,(Bass & Avolio, 1995)
	Inspirational Motivation	
	Intellectual Motivation	
	Individualized consideration	
Transactional Leadership	Contingent Reward	MLQ,(Bass & Avolio, 1995) (Bass & Bruce, Avolio, 1995, 2000, 2004)
	Management by Exception (Active)	
	Management by Exception (Passive)	
Creativity	Generating Ideas	(Lyndi Smith, 2010)
	Digging Deeper Into Ideas	
	Exploring Ideas	
Employee's Innovative behavior	Idea Generation	(Janssen's , 2005), (Scott & Bruce, 1994), (Kanter's, 1988)
	Idea Promotion	
	Idea Realization	

All the items were rated on 5-item likert scale by the employees, except for the items of employee's innovative behavior which was completed by their leaders/supervisors, where 1 = "strongly agree" and 5 =

“strongly disagree”. The scale for employee’s innovative behaviour was measured on 5 point likert scale where 1 referred to as “never” and 5 referred to “always”. Creativity was also rated on 5 point likert scale where 1= “rarely” and 5= “very often”. The questionnaire comprises of a number of items that are described in detail.

Analysis and Results

In this study IBM SPSS version 21 was used for screening of data such as missing values analysis, normality test, multivariate outliers’ identification and reliability test. Analytical Hierarchical Process was used for selecting the critical factors of the independent variable whereas confirmatory factor analysis with structural equation modeling tools was applied for checking the mediation path using IBM AMOS version 21. Model fit indices were obtained through structural equation modeling hypotheses were tested using path estimates. According to (Barron Kenny, 1986, Hayes & Preach, 2004) SEM is simply used for checking mediation affects directly or indirectly between the independent variables which are transactional & transformational leadership style and dependent variable which is employee’s innovative behavior in the proposed model and the creativity is placed as a mediator between the independent and dependant variable in this research.

Reliabilities of Scales

Reliability of scales was measured through Cronbach’s alpha (α) reliability test. According to the study of Boonitt and Paul (2006), reliability analysis presents internal consistency of the data that were acclimated to quantify the concealed constructs. Ideally, Cronbach alpha coefficient scale must be above 0.7 (DeVellis, 2003). The reliabilities of scales are given in Table 2.

Table 2

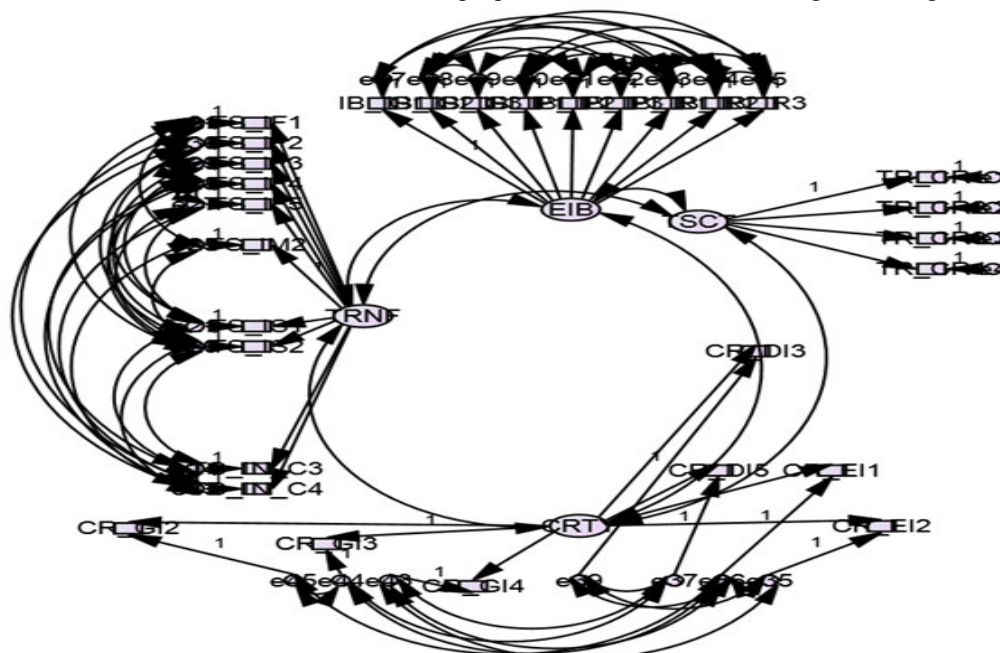
Reliability of Scales

Construct	Items	A	α Based on Standardized Items
Transformational Leadership	55	.799	.819
Transactional Leadership	31	.761	.784
Creativity	15	.752	.771
Innovative behavior	9	.871	.871

The table shows that transformational leadership style consisted of 55, transactional leadership style consisted of 31 items, creativity was rated with 15 items and employee’s innovative behavior was consisting of 9 items. All the variables had an alpha value more than 0.70 which indicated that the instrument was reliable.

Structural Equation Modeling

The model was assessed in two steps. First, confirmatory factor analysis was conducted, which is used for model validation with latent and observed variables. The proposed measurement model is given in Figure 1.



The goodness of fit indices for confirmatory factor analysis are given in Table 3. The table shows that the ratio of model chi square and degree of freedom (CMIN/DF) was 2.363. The fit statistic, GFI (.87), CFI (.924) and TLI (.905) also indicated a good fitted model. Root mean square error of approximation (RMSEA)

represents badness of fit and should be less than .085. In this study it was .065 hence, all the fit indices validate the measurement model and allow further estimation of the model.

Table 3

Goodness of Fit Indices

GOF index	CFA Model
CMIN/DF	2.363
GFI	.870
CFI	.924
TLI	.905
RMSEA	.065

Second, Structural Model (SEM) was estimated to examine correlations and linear relationships among the dependent and independent variables and their random requisites for hypothesized model testing. The structural fit statistics test were computed and assessed by basic essentials of goodness of fit. The fit indices in Table 4 indicate that CMIN/DF was 3.115. GFI was .991, CFI .941 and AGFI was .953 whereas RMSEA was .081. All the fit statistics indicated a good fitted model; therefore, the path coefficients could fairly be used for hypotheses testing.

Table 4

Goodness of Fit Indices

GOF index	Structural Model	Analysis
CMIN/DF	3.115	Good Fit
GFI	.991	Good Fit
CFI	.941	Good Fit
AGFI	.953	Good Fit
RMSEA	.081	Good Fit

Hypotheses Testing

The standard regression coefficients and p-values are given in Table 5. Hypothesis 1 states that Transactional Leadership Style is positively associated with employee's creativity. The table shows that there is positive and significant effect of transactional leadership style on employee's creativity ($\beta = .257, p < .05$) accepting the hypothesis. Hypothesis 2 states that transformational leadership style is positively associated with employee's creativity. This hypothesis is also supported ($\beta = .198, p < .05$). Hypothesis 3 states that employee's creativity is positively associated with employee's innovative behaviour. This hypothesis is supported ($\beta = .350, p < .05$). Hypothesis 4 stated that employee's creativity mediates the relationship between transactional leadership style and employee's innovation behavior. This hypothesis is also supported ($\beta = .210, p < .05$). Hypothesis 5 states that employee's creativity mediates the relationship between transformational leadership style and employee's innovation behavior. This hypothesis is rejected ($\beta = -.092, p > .05$).

Table 5

Path Estimates

Structural Paths	B	S.E.	C.R.	P-Value
Transactional → Creativity	.257	.033	4.139	.000
Transformational → Creativity	.198	.050	8.212	.000
Creativity → IIB	.350	.045	2.733	.000
Transactional → IIB	.210	.022	3.459	.001
Transformational → IIB	-.092	.086	-1.402	.130

Mediation Analysis

Table 6 shows the results of mediation analysis. It can be seen from the table that the direct effect of transactional leadership style on employee's innovative behavior was .210 which increases to .0899 by the inclusion of employees' creativity. The total effect of transactional leadership style on individual innovative behaviour became .2999 after mediation thus strengthening the relationship. Similarly, the direct effect of transformational leadership style on employee's innovative behaviour was -.092 which increased to .0693 by the inclusion of employees' creativity. Although the total effect was negative however it provided an indication of increase in the total effect of transformational leadership style on individual innovative behaviour. Since the alpha (relationship between independent variables and mediator) and beta path (relationship between mediator and dependent variable) are significant for both the leadership styles therefore it shows successful mediating effect (McKinnon and Fairchild, 2009) of employees' creativity on employees' innovative behaviour.

Table 6
Direct, Indirect Effect and Total Effect

Relationship	Direct relation c'	Indirect Effect Ab	Total Effect c = c' + ab
Transactional → Creativity → EIB	.210	.0899	.2999
Transformational → Creativity → EIB	-.092	.0693	-.0227

Independent Sample T Test for Comparing Groups

An independent-samples t-test was conducted to compare mean of transactional and transformational leadership style, creativity and innovative behaviour of employees across public and private banking sector to find out whether there is a significant difference between two groups. There was significant difference in scores for public banks ($M=2.5331$, $SD=.82317$, $t=7.865$, $p=.000$) and private banks ($M=1.9021$, $SD=.62288$; $t=7.523$, $p=.000$). The mean values of the antecedents of transactional leadership style for public and private banks were 2.5331 and 1.9021 respectively. This difference was statistically significant because its p-value was less than .05 which represents that there is more emphasis on transactional leadership style in private banks as compare to public banks. In case of transformational leadership style, the mean value of transformational leadership style for both types of banks was very close (3.7610 and 3.5831) and the difference was significant at $p= .003$ and $.004$ respectively for public and private banks. The values for creativity for private and public banks were 3.2815 and 2.9267 respectively. The difference of means was statistically significant. Mean values of the antecedents of employee's innovative behavior were 2.3245 and 2.3398 respectively for both public and private banks and the differences of these values was insignificant at .859 and .863 respectively.

Discussions

The findings of the study suggest that there positive association between the Transactional Leadership Style and employee's creativity and employees' innovative behaviour. These result are consistent with previous studies, for example, Burns (1978) first explored the relationship between the transactional leadership style and subordinates innovation and found the positive relationship between these two variables. Similarly many studies found the same relationship (Bass & Avolio, 1990; Sosik, Avolio & Kahai, 1997; Mumford, 2002; Bettencourt, 2004). However some researchers (Bass, 1985; Lee, Si & Wei, 2012) found negative relationship between the transactional leadership style and employee's innovative behaviour. They set an argument that because the transactional leader only give rewards and benefits for the accomplishment of specific objectives therefore employees do not engage themselves in innovative behavior in the workplace. The study also shows positive relationship between transformational leadership style and employee's creativity. However, it does not suggest positive relationship between the transformational leadership style and employee's innovative behavior in the banking sector of Pakistan. Many of the researchers (Bass & Avolio, 1990; Avolio, Sosik & Kahai, 1997; Mumford, Scot & Strange, 2002; Jung, 2003; Bettencourt, 2004; Gumusluoglu & Ilsev, 2009; Sanders & shipton, 2012; Xie, Shunlong & Zhang Weiming, 2012) found positive relationship between the transformational leadership style and employee's innovative behavior. Although this result is not consistent with many studies yet there are evidences that suggest that the transformational leadership style is not associated with the employees' innovative behavior rather they marked that the transformational leaders can be harmful to employee's innovative behavior (Harrison, 1987; Howell & Avolio, 1992; Basu & Green, 1997; Omer, Mazlum, Akif & Mehmet, 2010). Harrison (1987) explained that the transformational leaders sometimes cause extreme stress for organizational goals, which leads to prolonged anxiety in subordinates and according to Basu and Green (1997) transformational leaders could be innovative themselves and not known, recognizing the subordinates behaviour as innovative or employees felt that their innovative behavior is unnoticed by their leaders and then they will be discouraged from displaying innovative behavior in their workplaces. Another possible argument for the differences between the current and previous studies may be the cultural, sample size and sector, size of the organizations differences. Like in Jung's study (2003), more than 500 respondents were involved in the survey whereas in Taiwan and in Turkey the study is conducted on micro and small and medium enterprises by the (Gumusluoglu, 2009). Moreover, Taiwan and Turkey are considered as having high context culture and they mostly use transformational leadership style. The study shows successful mediating effect of employees' creativity between the transactional leadership style, transformational leadership style and employee's innovative behavior. So it is proved that transactional leadership plays a vital role for enhancing creativity in the employee's which leads to innovative behavior of the employees and furthermore there is a direct effect of Transactional leadership style on employees' innovative behavior but when the creativity mediates between transactional leadership style and innovative behavior, the relationship becomes more strengthen. This result is consistent with literature. According to (Kahai, Sosik & Avolio, 2003), the transactional leaders can put together probability for their employees to fulfillment of goals to extrinsically motivated employees to contribute creativity. (F.Oban & Yugar, 2009) explored the relationship of transactional

leadership with employees' creativity and found positive correlation. Creativity leads to innovation and that is why with the exchange of reward, the creative employee is stimulated and motivated to enhance the innovative behavior in the workplace. The mediating effect of creativity is important since there is insignificant relationship between the transformational leadership style and employee's innovative behavior without the mediating effect. Many Researchers also claim that the leadership behaviour is determinants of creativity at their workplace because the transformational leaderships set a vision, provide support for creativity and give encouragement to cope up with challenges. According to (Bass & Avolio, 1995, Sosik, Kahai & Avolio, 1998), behaviour of the leaders particularly of the transformational leadership style acts to enhance creative employees, serve as a reward, enhance thinking, provides encouragement for generating idea by energizing and motivating the subordinates to achieve the vision of the organization. Therefore, all of the proposed hypotheses were accepted and were convergent with the prior studies.

Implications

This suggests that particular leadership strategies could indeed impact creativity, such as increasing the self-efficacy. On the other hand, more general leadership strategies such as transformational leadership showed mixed results. Leaders can use this information. They can, for instance, try to increase self-efficacy of their employees via coaching, feedback and task assignments. In addition, they may increase participation in order to boost creativity. Good leaders should pay full concentration to emotional information to stimulate the employees for presenting the innovative behaviour and make a consequent reaction in the process of innovation. The organizations should develop training programs and other relevant activities for supporting and establishing the relationship of trust to promote the knowledge sharing and gaining relevant information. A leader can do this for instance by first letting subordinates contribute and propose ideas and hereafter expressing his or her view on the matter, instead of the other way around. Such leadership strategies can improve creativity, which could lead to increased innovations and performance of organizations (Amabile, 1996; Im & Workman Jr., 2004). An organization need to be greatly innovative to maintain a competitive advantage and it is crucial for the organizations for their survival to enhance innovation behavior. Leader as well as the organization should offer the employees with training programs, promotion opportunities, give them authority and direction of goal to stimulate and encourage them to bring innovative ideas.

Limitations and Future Directions

The study had some limitations and offers directions for future research. This study incorporates only two leadership styles for innovative behaviour which may not be sufficient to stimulate innovative behaviour therefore, it is suggested to study more leadership style like charismatic leadership style, autocratic, democratic or both as a Laissez-Fair leadership style can be used to explore the impact on employee's innovative behavior. The target population consisted of bank employees that may affect generalizability of the results over other sectors therefore future studies are suggested to include other sectors of economy such as telecom, media industry, insurance companies, health and education sector where employees need to be creative. This study is conducted only in five selected cities of Pakistan affecting the generalizability of the findings, so it is recommendation that other cities should also be included in the future studies.

Conclusion

This study develops a framework to describe the relationship between transactional and transformational leadership style and employee's innovative behavior with the mediating effect of creativity of the employees. This study was conducted in the banking sector of Pakistan including both the private and the public banks. Therefore this research offers significant contributions to the leadership style, creativity and innovative behavior literature. The research indicates that in the Pakistani banking context, transactional leadership style is effective for stimulating employees' creativity and innovation in the employees. It also suggests that the effect of transformation leadership style can productively be used to stimulate individual innovative behaviour among employees by encouraging them to bring novel ideas. The banking sector may utilize the efforts of transactional leaders for gaining competitive advantage by promoting innovative behaviour among employees.

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