

Transformational Leadership and Innovation for Competitive Advantage in Large Firms and SMEs

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ABSTRACT

The aim of this study is to empirically investigate how transformational leadership (TL) practices encourage innovation for competitive advantage within the specific context of Saudi large firms and SMEs. Despite a profusion of studies noting that innovation strongly contributes to a firm's performance, there is a dearth of studies about how TL practically encourages organizational innovativeness. Moreover, because many leadership studies are limited in their location to Western nations, further research in a range of different cultural contexts is warranted. This study will address these issues and suggest a conceptual framework that empirically tests the path-dependent influences of TL, structural capital, relational capital, tacit knowledge sharing, and training on innovation outcomes. This study will employ a mixed methods approach to examine the hypothesized relationships between factors. The findings of this research may emphasize the importance of utilising TL style as a process rather than through the study of leadership alone in facilitating innovation.

KEYWORDS

Innovation, Relational Capital, Social Capital, Structural Capital, Tacit Knowledge Sharing, Training, Transformational Leadership

INTRODUCTION

This study will draw on and intersect with two prominent areas of research: leadership and innovation studies. The aim of this research is to interrogate and investigate the interrelation between transformational leadership practices and innovation, for competitive advantage. The study will look at how TL practices interact for producing and encouraging innovation. Large firms and SMEs were chosen for this study because of their significant impact on economic growth; thus, enhancing their innovation capability has an economy-wide importance.

RESEARCH BACKGROUND AND RESEARCH PROBLEM

Over the years, numerous research results have pointed out the positive relationship between leadership and producing innovation in organizations. Thus, understanding how firms can encourage the role of

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leadership in facilitating innovation is crucial for survival in a competitive environment (Al Ahmad et al., 2019; Le and Lei, 2019). With the increased use of leadership model concepts in firms, the question naturally arises as to what style of leadership is most suitable to what outcome; in this case what style is appropriate for promoting innovation (Zuraik and Kelly, 2019; Al-Husseini et al., 2019; Currie et al., 2009). Bass (1985) points out that TL is considered an essential element in displaying creative behaviors, serving as role models for innovation. In addition, they have the ability to provide intellectual stimulation that may positively influence their followers to think differently (Jung et al., 2003). Furthermore, the theory of TL focuses on the major role that leaders can play in encouraging both personal and organizational change, and in supporting followers to meet and exceed expectations regarding performance (Avolio et al., 2005). For this reason, many authors in the innovation literature such as Nemanich and Keller (2007) and Gumusluoglu and Ilsev (2009) note the direct role that TL can play in contributing to innovative behavior within organizations, as well as their role in indirectly encouraging an organizational climate conducive to producing innovation. In this sense, TL can be defined as: “Style of leadership in which the leader identifies the needed change, creates a vision to guide the change through inspiration, and executes the change with the commitment of the members of the group” (Jung, Chow, and Wu, 2003, p. 529).

Innovation in organizations can be viewed as an outcome of individual, team, and organizational efforts connected to producing a new product, process, or service that is potentially required by a market. Hence, innovation can be seen as the outcome of a number of activities and practices performed at different levels of the organization (Silvestre and Tirca, 2019; Aagaard, 2017). Innovation is viewed and appreciated as a core competence for contemporary organizations to maintain or enhance effectiveness in rapidly changing and challenging environments (Chan et al., 2019; Owusu-Agyeman, 2019; Bledow et al., 2009; Hansen and Levine, 2009). Conventionally, innovation can be classified as either radical or incremental depending on the processes used, extent and nature of the change (Tidd et al., 1997). Radical innovation leads to major technological, economic and social change (Toner, 2011) and it has been designed to meet the needs of customers and markets (Benner and Tushman, 2003). Conversely, incremental innovation is achieved by exploiting present abilities of a firm and looking for continuous developments that create positive and solid returns (Neito et al., 2013).

Despite the significant relationship between innovation outcome and TL, there is a dearth of studies that investigate how TL actually invests and promotes processes through which followers are positively influenced to create and adopt innovative outcomes (Yang et al., 2018; Aagaard, 2017; Perra, Sidhu and Volberda 2017; Birasnav et al. 2013; Eisenbeiss et al. 2008; Zhang et al. 2013). In a similar vein, Chan et al. (2019) also point out this lack, and note the need for additional research especially into the factors and processes that explain how TL can influence and sustain higher levels of innovation capability. This study will attempt to fill the above gaps by deeply interrogating and investigating how TL practically facilitates innovation to sustainable competitive advantage.

To fill these research gaps, this study will propose and test a framework to answer the following research questions:

1. To which extent do practices executed by TL affect the degree of innovation?
2. To which extent does social capital influence tacit knowledge sharing for innovation?
3. To which extent does training provided by TL influence innovation?

By answering these questions, this research will proffer a new way of thinking about relevant management practices to large firms and SMEs. This study will encourage TL, and for firms to think innovatively about their managerial practices; it will also provide information on effective strategies for promoting a propensity for innovation.

PRELIMINARY LITERATURE REVIEW

Many authors have pointed out that innovation is considered a main method for organizations to create value and competitive advantage in rapidly changing environments (Bilton and Cummings, 2009). Hence, innovation can be seen as a measure of the competence and efficiency of modern firms in sustaining or improving their effectiveness in changing and challenging environments (Bledow et al. 2009; Choi et al. 2009; Hansen et al. 2009). Inevitably, organizations are bound to face some challenges and opportunities posed by the increasingly more competitive world, hence creating a continuous need for innovative ways of doing things. In this regard, one option for organizations to become more innovative is to foster and encourage the roles and participation of leadership (Le and Lei, 2019).

Leadership has become a considerable concern for many scholars and managers. This is attributed to the importance of effective leadership within organizations of all sizes to maintain profitability, efficiency and customer relations (Kirkbride, 2006). Leadership is about influencing, motivation and inspiring followers. It is also about coaching and developing followers and treating them with respect (Keskes, 2013). Leaders seek to create strong teams with followers committed to the organization's overall goals (Dwyer and Hopwood, 2013). Actually, leadership is not an attribute nor a series of action but rather a process. For instance, Tannenbaum et al., 1961; Yukl, 2008; Northouse, 2010) define leadership as a process whereby an individual influences a group of individuals to achieve a common goal. According to Bass and Avolio's (2003), leadership styles can be sorted into three main categories: transformational; transactional; and the laissez-faire (Ryan et al., 2013).

TL is a type of leadership that can inspire significant positive change in followers. According to Burns (1978), who first introduced the concept, this style of leadership can be clearly seen when leaders and their subordinates closely collaborate for mutual promotion to a higher degree of moral worth and motivation. Also, leaders of this style have the ability to inspire followers to change expectations, perceptions, and motivations and thereby work towards common goals.

Burns (1978) defines TL as the process of pursuing collective goals through the mutual tapping of leaders' and followers' motive bases toward the achievement of the intended change. Years later, Bass (1985) further developed Burns' idea about leadership and created 'transformational leadership theory' (Keskes, 2013). According to Bass (1985), TL can be determined based on the impact that it has on followers. He describes TL as a style of leadership that transforms followers to rise above their self-interest by altering their morale, ideals, interests, and values in the process, motivating them to perform better than initially expected. This kind of leadership style does emphasise followers' intrinsic motivation and personal development. In addition, with regard to today's global competitiveness and dynamic business environment, transformational leaders would be seen as high risk takers, ideal agents of change and capable of guiding followers in times of uncertainties (Bass and Riggio, 2006; Avolio et al., 2004; Analoui et al., 2013). Hence, TL can correlate with positive individuals and organizational outcomes and they are idealized influence because of their awareness to follower requirements, such that they support shared risk taking (Jung et al., 2008).

There is a real need to comprehend and understand how transformational leaders actually invest and promote processes through which followers are positively influenced to create and adopt innovative outcome (Le and Lei, 2019; Zuraik and Kelly, 2019; Chan et al., 2019) and how TL can clarify their expectations, set goals and monitor the performance of their staff (Yang et al., 2019; Yukl, 2009). This study, therefore, will attempt to fill the above gap by deeply interrogating and investigating how TL practically facilitates innovation. In other words, the study will focus on exposing some effective practices within organizations that can be implemented by TL in order to encourage organizational innovativeness.

Despite the widespread nature of the discussion of social capital in the literature, there is still a division on the significance and influence of the concept (Inkpen and Tsang, 2005; Roxas, 2008). The notion of social capital was first developed from sociological theory as a way to understand community and family relationships (Tsai, 2000), with the term being first used in 1916 by sociologists (Lin, 2001).

However, it was not until the 1980s that the term became popular, when Bourdieu (1986) identified social capital as the total potential and actual institutionalized relationships within social relationships.

Social capital is important in the relationships between individuals (Newell et al., 2004; Coleman, 1988), with all team members able to gain advantage from them both individually, and at large as a team (Wendt et al., 2009). In this regard, social capital can be considered as a resource that reflects the character of social relations within an organization, realized through members' levels of information sharing, shared trust and collective goal orientation (Leana and Pil 2006). Nahapiet and Ghoshal (1998, p. 243) define social capital as: "The sum of the actual and potential resources embedded within, available through and derived from the network of relationships possessed by an individual or social unit". The authors also classify social capital into three main dimensions: structural, relational and cognitive. Structural capital is a type of social engagement between network contacts, which leads to improved application of data and resources (Roxas, 2008; Xerri and Brunetto, 2011). Relational capital instead focuses on the nature of trust between different members of the network (Liao and Welsch, 2005; De Carolis and Saporito, 2006). The last dimension, cognitive capital draws from shared understandings and perspectives between specific members of a social network (De Carolis and Saporito, 2006; Roxas, 2008). All of these three social capital dimensions are thought to be interrelated, yet they each offer different views of how to capture social capital (Hu and Randell, 2014).

This study will draw on the Social Capital Theory (SCT) because it provides another appropriate theoretical lens to view this phenomenon and it can provide insights on the importance of tacit knowledge sharing for creative innovation. In addition, the importance and relevance of social capital theory emphasizes on the importance of a firm's social network in the procurement of internal knowledge by employees, and the importance of this knowledge in the innovation's propensity (Coleman, 1988). Therefore, this study is precisely to test empirically the effect of TL on social capital for innovation outcomes through the mediating effect of knowledge sharing. There is a paucity in the literature in regards to the role of TL in creating social network and its interaction for knowledge possession (Chang et al., 2019; Mostafa and Bottomley, 2018; Yadav et al., 2019).

Many scholars argue that training is considered an essential human resource function since it supports employees in developing fundamental abilities regarding the roles, knowledge and skills needed to successfully perform their jobs (Suazo et al., 2009). For this reason, many organizations spend a significant amount of money in developing their employee for learning. For instance, in 2011 employers in the United States spent approximately \$156.2 billion on employees learning with training activities at the core of this undertaking (Towler et al., 2014). This fact leads us to deeply think about the impact of training on firms, leading to question about the way in which firms can obtain maximum benefits from training to enhance innovation and performance within organizations. Thus, training is regarded as a cornerstone on which innovation can be created (Schneider et al., 2010). Although the significance of the role of training in supporting innovation is documented, few studies have analysed the influence of TL on training for innovation outcomes (Kuvaas and Dysvik, 2010; Towler et al., 2014; Chiaburu et al., 2010). In the next section, the study hypotheses based on the proposed conceptual framework will be presented and illustrated.

DEVELOPMENT OF HYPOTHESES

Transformational Leadership and Training

Previous study indicate that TL has a role to play in supporting training within organizations and is an essential for trainees' prioritisation of training, as well as innovation outcome (Chiaburu et al., 2010; Kuvaas and Dysvik, 2010). Furthermore, TL has major responsibilities in defining and employing human resource policies, practices and expectations that can shape employee's participation in training activities (Kuvaas and Dysvik, 2010; Towler et al., 2014). In a similar vein, Baldwin and Magjuka (1991) point out that transformational leaders are influential; they can affect trainee perceptions

regarding the significance of training within organizations and also further influence how trainees prioritize training in order to enhance their work activities for improving innovation capability. In addition, previous studies in human resource development indicate that there is a positive impact on trainees when TL displays support for training by a motivation or rewards system (Baldwin and Ford, 1988). This tends to encourage trainees to transfer the knowledge, skills and experience that they have acquired during training (Chiaburu et al., 2010; Kuvaas and Dysvik, 2010). Moreover, many authors affirm that TL has the capability to justify training programs, attract budget support, recognise and utilise the most efficient training programs for innovation strategies (Dvir et al., 2002). Based on the above, it is argued that TL is an important determinant in supporting training. Therefore, it is possible to posit:

Hypothesis One: *The transformational leadership is positively associated with training.*

Transformational Leadership and The Structural Dimension

The structural dimension of social capital focuses on characteristics of the configuration of connections among members within a network. This network ties thus reflects the nature and amount of interaction across the parties involved (Billhuber and Müller, 2012; Leana et al., 2006). The structural dimension of internal social capital reflects the extent to which people in an organization are interconnected and have access to the intellectual capital of others and with whom and how often they share information and resources (Nahapiet et al., 1998, Moran, 2005). This interaction (formal or informal) facilitates knowledge exchange and sharing between parties and can generate greater opportunities to engage in rich levels of interaction and knowledge exchange (Karahanna and Preston, 2013). In this regard, several authors (Galli et al., 2012; Maak and Pless, 2006) point out that TL is a crucial factor in creating the structural dimension of social capital in an organization, in integrating the interaction across the parties involved and strengthen the network ties (Avolio, 2007). Furthermore, Maak (2007) mention that previous empirical studies on responsible leadership emphasize on the significance role of TL in building social capital dimensions and in creating whole-network map, particularly of complicated relationships in firms. Through inspirational motivation, TL also can impact the efficacy of the structural dimension by convincing followers of the importance of relationships between members.

Moreover, TL has a direct impact on psychological empowerment, organisational commitment and higher level self-actualisation needs of employees (Bass, 1985). Thus, through the transformation of followers' values, behaviors, attitudes and beliefs, transformational leaders are intended to encourage followers to achieve higher-order goals and to exert extraordinary effort in pursuit of an organisation's innovative ambitions (Bass, 1985; Avolio and Bass, 1999). That is to say, transformational leaders based on their positions and abilities have the power and influence to form the structural dimension on social capital in a firm (Baytok and Kurt, 2014; Adler and Kwon, 2002). Therefore, it is possible to posit:

Hypothesis Two: *The transformational leadership is positively associated with the structural dimension of internal social capital.*

Transformational Leadership and The Relational Dimension

The relational dimension involves assets that accompany the connections between or among individuals. Nahapiet and Ghoshal (1998) proposed trust, norms, obligations, and identification to characterize the relational dimension of social capital. Inkpen et al. (2005) argue that for the purpose of knowledge sharing in an organization, trust is a critical aspect of relational social capital. This is because, trust allows for a freer exchange of information and for confidence in individuals' intentions. Karahanna and Preston (2013) contend that network ties also influence the level of mutual trust between parties as two actors interact over time and learn more about each other. Therefore, leaders who can inspire their employees with respect and foster trust from individuals to collective trust would harvest great benefits regarding knowledge sharing and resources and can correlate with positive individual and organizational outcomes. In this regard, authors (Adler and Kwon, 2002) argue that

TL is a key factor in facilitating the relational dimension of social capital in an organization as he/she has both power and influence. Additionally, TL can influence the extent and efficacy of the relational dimension by establishing a positive common ethical ground in order to enhance trust, norms and values among parties (Maak, 2007). Moreover, several authors affirm that a leader embodying TL exerts the influence and has the capability to encourage the psychological aspects of employees such as motivation, perceptions and confidence to influence the level of mutual trust between parties (Buil et al., 2019). Based on the above, it is apparent that TL is a key factor in facilitating the relational dimension of social capital in an organization. So, it is possible to posit:

Hypothesis Three: *The transformational leadership is positively associated with the relational dimension of internal social capital.*

Social Capital Dimensions and Tacit Knowledge Sharing

Research has identified that strong community ties within organisations can lead to creation of important environmental conditions for tacit knowledge exchange. Employees exist in a range of networks, social and others, and they affect the extent to which interpersonal knowledge sharing occurs (Hsu et al., 2007). Nahapiet et al. (1998) have claimed that network ties influence both access to parties for combining and exchanging knowledge, as well as creating value through exchange. Empirical research suggests that social interaction within organizations is considered the main technique for sharing tacit knowledge (Teece, 2001). Therefore, social networks within firms have a significant function in directing information flows (De Carolis et al., 2006). Through close social interactions, individuals are able to increase the depth, breadth, and efficiency of mutual knowledge exchange (Lane et al., 1998; Cummings, 2004).

Furthermore, Chiu et al. (2006) have said that members of virtual communities differ from general Internet users as they are constituted as a community via shared goals, needs, interests or practices. They also further claim that social capital influences knowledge sharing in terms of both quantity and quality. In a similar vein, Yanga et al. (2009) and Foss et al. (2010) argue that with social relationships potentially being the most important factor for creating tacit knowledge sharing among an organization's employees. Additionally, the structure of the social capital of a company can increase the likelihood of having informal face-to-face interactions that minimize the potential for misunderstanding and allow tacit knowledge to be effectively observed and understood (Davenport et al., 2001). In this regard, Hu and Randel (2014) argue that the three dimensions of social capital, which exist as structural, relational and cognitive components, are critical factors for tacit sharing in a business interested in fostering team innovation. Based on the above discussion, it is possible to posit:

Hypothesis Four: *The structural and relational dimensions of social capital are positively associated with the tacit knowledge sharing.*

Training and Innovation

Many researchers mention in their studies the positive connections between training and innovation performance. For example, Leiponen (2005) mentions that investment in developing employees within organizations through training is a crucial factor in improving skills, knowledge and learning. This in turn, increases the innovation propensity of a firm and of the national economy as well. Ewers (2007) and Glaeser (2000) argue that educating human capital throughout training enhances the skills and capabilities to innovate and creates greater economic activity. Moreover, Amara et al. (2008) state that acquired learning by training has a huge influence on the level of novelty of innovation within a company. Furthermore, Freel (2005) confirms in his research that the most innovative firms were observed to have the strongest employee training programs. Also, it was concluded that innovation capability and training are strongly linked.

Additionally, Benoit (2014) argues that the firm's stock of human capital is a significant determinant of its ability for innovation. So, any improvement in this stock through training may lead to greater innovation. In a similar vein, according to Canadian Statistics (2012), a lack of improving

skills through training within an enterprise is one of the two most frequently reported obstacles to innovation in Canadian firms. According to Bauernschuster et al., (2009) research findings in German firms over the years of 1997-2001, training has had a positive and statistically significant impact on innovation in these companies. Their findings suggest that a 10 percentage-point increase in training intensity would lead to a 10 percentage-point higher propensity to innovate. Based on the above, it is possible to posit:

Hypothesis Five: *Training is positively related to increasing innovation.*

Tacit Knowledge Sharing and Innovation

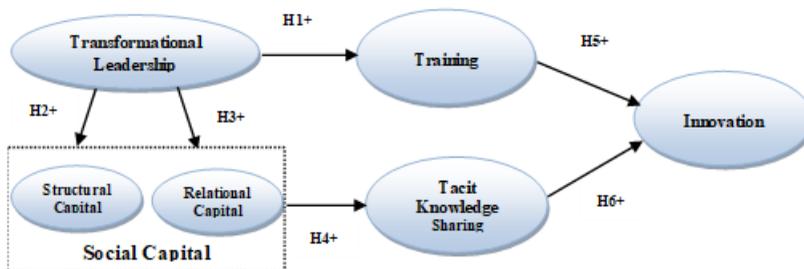
Various researchers, such as Wanga et al. (2012) have noted the strong correlation between tacit knowledge-sharing practices and innovation. Knowledge sharing has been found to be a key mediator through which social capital influences organisational innovation (Maurer et al., 2011; Xie et al., 2008). Tacit knowledge is thought to facilitate innovation when it is shared amongst individuals (Hu et al., 2014). In addition, Perez-Luno et al. (2011) argue that tacit knowledge has been found to result in innovation when accompanied by a high degree of social capital. Their findings suggest that when tacit knowledge is shared amongst employees within organisations, innovation will occur. Moreover, Bertels et al. (2011) argue that tacit knowledge sharing is a critical factor that leads to better performance within the early stages of innovation. As tacit knowledge represents critical know-how that offers a competitive advantage (Martin and Salomon, 2003), teams within businesses that facilitate and utilise tacit knowledge sharing among team members are more likely to accomplish innovative outcomes (Mohan and Venkatraman, 2001). Moreover, knowledge sharing is understood as creating valuable input for innovation because of company specific, socially oriented and path-dependent criteria (Chiang and Hung, 2010; Gachter et al., 2010). Therefore, a company can create knowledge sharing practices for groups or businesses, leading to better opportunities for producing new ideas or developing new business opportunities. Moreover, Marina (2007) mentions that a company’s capacity to transform and exploit knowledge will shape its level of innovation, including use of new problem-solving methods and products created to quickly respond to market demands. Therefore, it is possible to posit:

Hypothesis Six: *Tacit knowledge sharing practices are positively associated with innovation.*

Proposed Conceptual Framework

Figure 1 illustrates all the expected correlations that form the basis of the hypotheses and reviews the related literature on the constructs in relation to the tested research model.

Figure 1. The model of the role of TL in producing innovation in large firms and SMEs.



METHODOLOGY

This study will use a mixed methods approach (quantitative and qualitative) to examine the hypothesised relationships between TL, relational social capital, structural social capital, tacit knowledge, training and innovation. In order to better explore the research questions, this approach gains a significant benefit from methodological explanatory, allowing for a more effective analysis of the research thesis (Ridenour and Newman, 2008). Mixed methods research may also result in enhanced insightful knowledge not available through qualitative or quantitative methodologies alone (Venkatesh et al., 2013). Therefore, the main research method used in this study is the quantitative approach, supported by utilizing a qualitative method to affirm the content, and test the validity of the measurement items. The sample for this study will consist of large Saudi firms and SMEs in different sectors. The target population will include only employees who are working in innovative activities. Data will be collected via an online survey. The hypotheses will be examined by employing Structural Equation Modelling (SEM) with the statistical software program AMOS.

CONTRIBUTIONS OF THE STUDY

This study will contribute to the literature on innovation performance in the context of large firms and SMEs. Previous studies predominantly focused on the relationship between TL and innovation, but there is a dearth of empirical studies on how TL might practically promote a climate for encouraging more innovative outcomes. This study, therefore, will emphasise the practicality of TL style as a process, rather than through the study of leadership alone, in facilitating innovation. The findings of this research may provide empirical evidence that TL practices have a positive influence on innovation capability in large firms and SMEs. In addition, the research will add to the literature on innovation by investigating the mechanisms and processes that affect innovation. More specifically, it will provide a conceptual framework of TL and innovation in order to test the path dependent impacts of TL, relational capital, structural capital, tacit knowledge, as well as training and innovation, on the success of large firms and SMEs in gaining competitive advantage. Through my research, hopefully firms, practically Saudi firms will gain a greater understanding of the role of TL style in encouraging innovation and the factors that influence the implication for management practices to maintain a competitive advantage. It will also provide numerous strategies in which to achieve this.

CONCLUSION

Basing on the above background and motives, this study has developed a theoretical framework for understanding the way that TL impacts innovation in large firms and SMEs. Based on findings from this literature review, six hypotheses on the relationship between constructs related to the tested research model were presented. These hypotheses elucidate the causal correlation amongst these variables. The hypotheses will be empirically tested by using a mixed methods approach. This study will contribute to the literature on innovation performance in the context of large firms and SMEs. Finally, the results of this study will suggest a set of practices that firms can use in searching for innovation to maintain a competitive advantage.

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