

Transformational Leadership And Role Of Internal And External Support In Organizational Innovation

Naveed Akhtar Qureshi¹, Khansa Masood & Warda Gul², Zeeshan Shaukat³

¹Assistant Professor Department of Business Administration, Sukkur IBA University.

²School of Professional Advancement University of Management and Technology Lahore Pakistan.

³Dr. Hasan Murad School of Management University of Management and Technology Lahore Pakistan.

Abstract:

Leadership is one of the significant factors in innovation. It has been suggested that transformational leadership positively relates to organizational innovation; however, contextual conditions have been hardly examined to study the elevated effect in this relationship. Hence, this study examines the relationship between transformational leadership and organizational innovation and investigates the influence of contextual conditions such as external and internal support. Organizational innovation is defined as creating new products and services that are useful and valuable for an organization. A hypothesis was formed to suggest the positive influence of transformational leadership on organizational innovation. Internal support such as innovation-friendly working climate and policies and external support such as financial assistance or technical consultation from external institutes were hypothesized to have a moderating role in the relationship between transformational leadership and organizational innovation. Small and medium enterprises were used as a sample to conduct this study. Hierarchical regression analysis was used to test the hypothesis; data was collected using two questionnaires for employees and leaders. This study showed a significant positive relationship between transformational leadership and organizational innovation. However, the moderating role of internal support was not supported. The moderating role of external support was significant, indicating that external support augments the relationship between transformational support and organizational innovation. The findings of this study contribute as it is conducted on small and medium enterprises whose managers should get external support to increase innovative projects at work. The mediating role of contextual conditions in the relationship between transformational leadership and organizational innovation may further be investigated in future studies.

Keywords: Transformational Leadership, Internal Support, External Support, and Organizational Innovation

Introduction

Organizations in today's world cannot survive without effectively dealing with a dynamic environment whose characteristics include fast changes in technology, globalization, and reduced life cycles of products. Hence, organizations facing these challenges in the prevalent market conditions require innovation and creativity for survival, growth, and to lead and compete. In the 21st century, creativity-led innovation has become critical for organizations, but it is also essential for competitive and strong economies. Hence, creativity and innovations are valued highly in today's world (Mumford & Gustafson, 1988). When generated creative ideas are successfully implemented in an organization, the process can be defined as innovation (Amabile, Conti, Coon, Lazenby, & Herron, 1996). One important factor influencing innovation is Leadership (Cummings & O'Connell, 1978). As suggested by (Shin & Zhou, 2003) leaders can play a role in increased level of creativity among their followers at work, creative behavior of employees can directly be affected by leadership (Oldham & Cummings, 1996), leaders can establish creativity supporting environment at work (Amabile, Schatzel, Moneta, & Kramer, 2004), leaders can devise strategies, influence culture, create rewards systems and align resources in ways that are supportive of innovation at work (Woodman, Sawyer, & Griffin, 1993).

One of the vital types of leadership is transformational leadership. Transformational leaders are defined as leaders who can transform their followers' self-concepts and personal values, moving their needs and hopes to a higher level and raising their performance expectations (Avolio & Bass, 1995; Jung, 2001). Components of transformational leadership include charismatic role modeling which leader utilizes to assert respect, loyalty and admiration, second component is individualized consideration which leader utilizes to establish one-to-one relationship and understand needs and hopes of his or her followers, third component is inspirational motivation which leader utilizes to instill belief among his followers of their excellent abilities and confidence to achieve goals and finally intellectual stimulation which leader utilizes to broaden the interest of his employees and elevate their thinking in new ways about old problems (Bass, 1990). Transformational leadership positively influences organizational innovation as suggested by various studies (Jung, Chow, & Wu, 2003). However, a lack of studies has been observed regarding examining compounding factors in contextual conditions in this relationship of transformational leadership and organizational innovation., internal and external factors affect the innovation in the organization (Woodman et al., 1993). Hence, this study aims to examine the effect of transformational leadership on organizational innovation and the impact of contextual factors; external and internal support of innovation.

Literature Review

Transformational Leadership and Organizational Innovation

Organizational innovation is defined as the process of creating new products and services that are useful and valuable for an organization (Woodman et al., 1993); organizational innovation is related to the complete process of successfully introducing new useful products and valuable services to the market, organizational innovation is defined as "new products or services

introduced to meet an external user or market need” (Damanpour, 1991). A positive influence of transformational leaders on innovation has been suggested in studies. Transformational leaders elevate organizational tendency to innovate. As mentioned earlier, intellectual stimulation and inspirational motivation are utilized by transformational leaders, which play an important role in organizational innovation (Elkins & Keller, 2003). Self-confidence, self-esteem and self-efficacy is developed among his followers by a transformational leader (Bass, 1990).

Behavior of a transformational leader acts as force of creativity enhancement and promotes creative ideas inside the organization, he utilizes individualized consideration as a reward and way to enhance connection with his or her followers, his utilization of intellectual stimulation and inspirational motivation serves as force of encouraging exploratory thinking and enhancing process of idea generation (Sosik, Kahai, & Avolio, 1998). In addition to this, a transformational leader enhances the willingness of his or her followers to exceed the performance expectation, provides his vision to them, and motivates them to adopt creative approaches to the problems at work. It results in positive self esteem among his or her followers and elevated motivation level and hence heightened organizational innovation (Mumford, Scott, Gaddis, & Strange, 2002). Several studies support the positive influence of transformational leaders on organizational innovation (Keller, 1992) and (Waldman & Atwater, 1994). (Jung et al., 2003) measured innovation by research and development expenditure and no patents secured in the past 3 years and suggested that transformational leadership has a significant relationship with organizational innovation. Keeping in view above mentioned studies, first hypothesis is given as under.

H1: There is a positive significant relationship between transformational leadership and organizational innovation.

Internal Support

An organization can use many methods to support innovation at work internally, these methods include recognition along with encouragement and rewards for creativity along with provision of adequate amounts of funding and other resources such as time and personnel (Cohen & Levinthal, 1990; Scott & Bruce, 1994; Woodman et al., 1993). According to (Scott & Bruce, 1994), “climate indicates signals received by individuals regarding organizational expectation for behavior and its possible outcomes” which means perception of employees concerning creativity is positively encouraged and allocation of organizational resources is done in a manner to influence innovative behavior and provide support to creativity. In line with this, several studies have shown direct impact of positive perceptions of employees on innovation, for instance: (Abbey & Dickson, 1983) investigated that innovation in forty-two companies of semiconductor is linked with perception of employee regarding work environment, particularly the extent to which alignment of rewards was with performance and organizational flexibility of entertaining creative ideas. When an employee’s perception of an organization is that it supports innovative ideas, is open to change and can provide resources such as possible funding, time allocated and personnel required, then employees in such organizations are more likely to create perception of organization as having supportive innovation climate and thus

employees show flexibility in taking risks to achieve innovation. Such internal support in organizational climate provides a psychological basis for creativity as their perception positively influences employees creative work (Amabile et al., 1996; Rehman, Hafeez, Aslam, Maitlo, & Syed, 2020).

Though some studies suggest a positive relationship between internal climate and organizational innovation, several inconsistencies have also been reported. For instance: researchers stated in this study (Scott & Bruce, 1994) that the “role of climate as a mediator may be overstated in the literature”, innovative work environment was shown to have limited support as mediator in this study. In addition to this, (Wei & Morgan, 2004) failed to form a direct relationship between internal support at work such as positive environment and performance of new product, this study was conducted in China with sample of 110 firms in manufacturing industry. Keeping in view the inconsistencies, this study aims to investigate moderating role of internal support which is similar to (Woodman et al., 1993) where organizational creativity is explained as function of contextual influences, contextual influences can act as constraints or enhancers of creativity of individuals.

Transformational leadership results in high performance at flexible and supportive creativity organizations (Bass & Riggio, 2010). It has also been found that the extent of support for innovative work environment moderated the relationship between transformational leadership and performance of 78 managers in financial institutions of Canada (Howell & Avolio, 1993). Therefore, hypothesis 2 is as under:

H2: Internal support concerning innovation acts as a moderator between the relationship of a transformational leader and organizational innovation in a manner such that higher internal support will result in stronger organizational innovation.

External support

External environment of a firm plays an important role in how an organization is flexible to innovate. Organizational innovation is affected by exchange of views and information of firm with the environment and it is hypothesized as vital contextual variable (Woodman et al., 1993). A positive relationship between external communication and innovation has been reported in a meta-analysis review of studies regarding innovation in organizations (Damanpour, 1991). External knowledge can add-on and benefit own knowledge output of a firm playing vital role as one of the organizational source of innovation (Cohen & Levinthal, 1990). Availability of resources is critical factor for innovation in organization and obtaining resources from outside the organization complements process of innovation in an organization. Types of external supportive relationship can be built in various manners, few of them could include cooperation with research and academic institutes, obtain technical assistance and financial help from public or private organizations to support innovative projects and establish strategic partnership with other companies in same industry or otherwise for funding's or exchange of expertise (Akbar, Muzaffar, & Rehman, 2012). Organizations lacking internal resources can get critical support in financial or technical manner from external institutions which might augment their innovation. Hence a positive effect of transformational leadership

on organizational innovation is proposed in this study to be strengthened in presence of external support. Thus, hypothesis 3 is given as under:

H3: Relationship between transformational leadership and organizational innovation is moderated by external support in such a manner that a higher external support results in a higher effect of leadership on innovation.

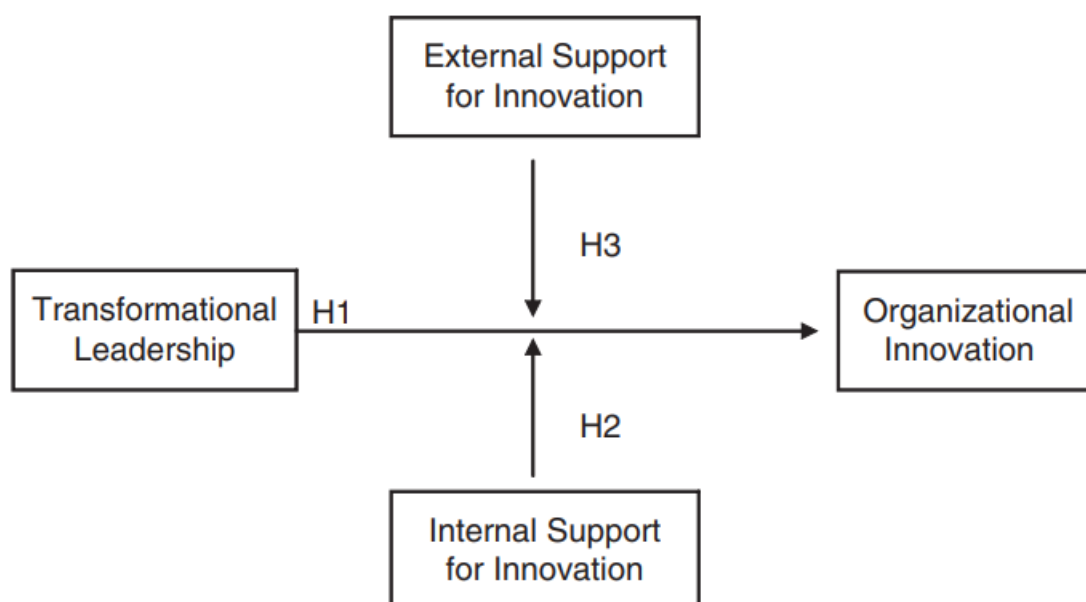


Figure 1: Research Framework

Methodology

This study was conducted on 33 small and medium enterprises based in Pakistan, all enterprises were homogenous in size, with employees ranging from 7 to 26. The total number of employees who participated in this study was 193 with 129 men (67%) and 64 women (33%). Data collection was done with the help of questionnaires and two separate questionnaires were used, one for leaders of the enterprise and other for their followers or employees respectively. 4 employees out of 197 employees did not fill the questionnaire. 6 employees on average were selected for rating one leader in questionnaires to employees.

Twenty items of Multi-factor leadership questionnaire were used to measure transformational leadership (Bass & Avolio, 1996). Employees were given option to rate their immediate leader on frequency of their leader to engage in behaviors of a transformational leader. Five-point Likert scale was used where 5 indicated “frequently, if not always” and 1 indicated “not at all”. Exploratory factor analysis was conducted on twenty items using varimax rotation and principal components method, scale was formed whose reliability was 0.92 (Cronbach’s alpha).

Internal support was measured using twelve items taken from measure of supportive perception regarding innovation at work environment (Scott & Bruce, 1994), in which five point scale ranged from 5 as strongly agree to 1 as strongly disagree indicating extent of enterprises to support innovation. Scale formed of these items had reliability of 0.93. Meanwhile, external

support was measured by asking leaders regarding any support obtained in the last 2 years for innovative projects, external support in terms of financial assistance, and technical consultation. Organizational innovation was measured with product of 2 ratios namely coefficient of innovative tendency and product innovations' success. Age of the firm was used as control variable. Hierarchical Regression analysis was conducted in four steps to test the given hypothesis.

Results

Table 1 presents mean, standard deviation, and correlation among variables. There is significant correlation between age of enterprise with support obtained externally and transformational leadership with organizational innovation. Meanwhile, table 2 indicates results of regression analysis.

Table 1:

Variables	Mean	S.D	1	2	3	4
1. Transformational leadership	3.89	0.61				
2. Internal support for innovation	3.73	0.63	0.79**			
3. External support for innovation	0.55	1.20	-0.08	-0.21		
4. Firm age	5.69	3.37	-0.13	-0.10	0.52***	
5. Organizational innovation	1.48	0.65	0.32*	0.23	0.15	0.31

*P<0.05, **P<0.01, ***P<0.001

Table 2:

	Step 1	Step 2	Step 3	Step 4
Firm age	0.03	0.04	0.04	0.08
Transformational leadership		0.38	0.42	0.66*
Internal support for innovation		-0.07	-0.07	-0.21
External support for innovation		-0.02	-0.02	0.06
Transformational leadership * internal support			-0.17	-0.06
Transformational leadership*external support				0.59*
F	3.72	2.43	1.89	3.13*
Df	1.00	3.00	4.00	5.00
R ²	0.07	0.23	0.23	0.31
Change in R ²		0.14	0.00	0.08*

*p<0.05

Results of the first hypothesis which suggested a positive relationship between transformational leadership and organizational innovation confirmed the following relationship. First hypothesis was supported with values of $p < 0.5$ and $b = 0.66$. However, hypothesis 2 was not supported, results indicated that moderating effect of internal support in relationship of transformational leadership and organizational innovation was not significant ($b = -0.17$).

Hypothesis 3 was related to moderating role of external support in the relationship between transformational leadership and organizational innovation, and results have supported this

hypothesis with values of $p < 0.05$ and $b = 0.59$. Hence, a combined effect of external support and transformational leadership on organizational innovation was supported.

Discussion

This study is a positive contribution and aligns with previous research work. Transformational leadership was positively related to organizational innovation (Jung et al., 2003). This study was conducted in small and medium enterprises, which contributes to the support of positive relationships as large enterprises were mostly used in earlier studies. The supported hypothesis of the significant role of external support in the relationship between transformational leadership and organizational innovation has also been suggested in the literature (Elkins & Keller, 2003).

However, the suggested role of internal support as a moderator between transformational leadership and organizational innovation was not supported. One possible explanation could be the size of the enterprise, suggesting that for small enterprises, external support plays more critical than internal support in their tendency toward innovation. It is also one of the constraints of this study; findings of this study cannot be generalized due to the focus being only on small and medium enterprises; large enterprises, on the other hand, might require an innovative internal climate for organizational innovation. Managers of small and medium enterprises would find it helpful as this study suggests getting external help for innovative projects (Syed, Rehman, & Kitchlew, 2018).

Future Direction

Internal support along with external support as moderators between the relationship of transformational leadership and organizational innovation was investigated in this study; the further mediating role of different variables should be examined in this relationship. In addition to this, different contextual variables should be examined in this relationship as the significant role of external support as the contextual variable suggests.

References

- Abbey, A., & Dickson, J. W. (1983). R&D work climate and innovation in semiconductors. *Academy of management journal*, 26(2), 362-368.
- Akbar, I., Muzaffar, M., & Rehman, K. U. (2012). Entrepreneurial Supply Chain Management Competence: Performance of Manufacturing Small and Medium Enterprises. *International Journal of Management and Organizational Studies*, 1(2), 39-46.
- Amabile, T. M., Conti, R., Coon, H., Lazenby, J., & Herron, M. (1996). Assessing the work environment for creativity. *Academy of management journal*, 39(5), 1154-1184.
- Amabile, T. M., Schatzel, E. A., Moneta, G. B., & Kramer, S. J. (2004). Leader behaviors and the work environment for creativity: Perceived leader support. *The Leadership Quarterly*, 15(1), 5-32.
- Avolio, B. J., & Bass, B. M. (1995). Individual consideration viewed at multiple levels of analysis: A multi-level framework for examining the diffusion of transformational leadership. *The Leadership Quarterly*, 6(2), 199-218.

- Bass, B. M. (1990). From transactional to transformational leadership: Learning to share the vision. *Organizational dynamics*, 18(3), 19-31.
- Bass, B. M., & Avolio, B. J. (1996). Multifactor leadership questionnaire. *Western Journal of Nursing Research*.
- Bass, B. M., & Riggio, R. E. (2010). The transformational model of leadership. *Leading organizations: Perspectives for a new era*, 2, 76-86.
- Cohen, W. M., & Levinthal, D. A. (1990). Absorptive capacity: A new perspective on learning and innovation. *Administrative science quarterly*, 128-152.
- Cummings, L. L., & O'Connell, M. J. (1978). Organizational innovation: A model and needed research. *Journal of Business Research*, 6(1), 33-50.
- Damanpour, F. (1991). Organizational innovation: A meta-analysis of effects of determinants and moderators. *Academy of management journal*, 34(3), 555-590.
- Elkins, T., & Keller, R. T. (2003). Leadership in research and development organizations: A literature review and conceptual framework. *The leadership quarterly*, 14(4-5), 587-606.
- Howell, J. M., & Avolio, B. J. (1993). Transformational leadership, transactional leadership, locus of control, and support for innovation: Key predictors of consolidated-business-unit performance. *Journal of applied psychology*, 78(6), 891.
- Jung, D. I. (2001). Transformational and transactional leadership and their effects on creativity in groups. *Creativity Research Journal*, 13(2), 185-195.
- Jung, D. I., Chow, C., & Wu, A. (2003). The role of transformational leadership in enhancing organizational innovation: Hypotheses and some preliminary findings. *The Leadership Quarterly*, 14(4-5), 525-544.
- Keller, R. T. (1992). Transformational leadership and the performance of research and development project groups. *Journal of management*, 18(3), 489-501.
- Mumford, M. D., & Gustafson, S. B. (1988). Creativity syndrome: Integration, application, and innovation. *Psychological bulletin*, 103(1), 27.
- Mumford, M. D., Scott, G. M., Gaddis, B., & Strange, J. M. (2002). Leading creative people: Orchestrating expertise and relationships. *The leadership quarterly*, 13(6), 705-750.
- Oldham, G. R., & Cummings, A. (1996). Employee creativity: Personal and contextual factors at work. *Academy of Management Journal*, 39(3), 607-634.
- Rehman, K. U., Hafeez, I., Aslam, F., Maitlo, Q. U., & Syed, A. R. (2020). Mediating Role of Trust and Organizational Commitment in Relationship between Strategic Human Resource Management and Knowledge Sharing. *Iranian Journal of Management Studies*, 13(4), 565-586.
- Scott, S. G., & Bruce, R. A. (1994). Determinants of innovative behavior: A path model of individual innovation in the workplace. *Academy of Management Journal*, 37(3), 580-607.
- Shin, S. J., & Zhou, J. (2003). Transformational leadership, conservation, and creativity: Evidence from Korea. *Academy of management journal*, 46(6), 703-714.
- Sosik, J. J., Kahai, S. S., & Avolio, B. J. (1998). Transformational leadership and dimensions of creativity: Motivating idea generation in computer-mediated groups. *Creativity research journal*, 11(2), 111-121.

- Syed, A. R., Rehman, K. U., & Kitchlew, N. (2018). Impact of Perceived Leadership Style on Employees' Work Stress: Moderating and Mediating Role Big 5 Personality Traits. *Paradigms*, 12(1), 6-15.
- Waldman, D. A., & Atwater, L. E. (1994). The nature of effective leadership and championing processes at different levels in a R&D hierarchy. *The Journal of High Technology Management Research*, 5(2), 233-245.
- Wei, Y., & Morgan, N. A. (2004). Supportiveness of organizational climate, market orientation, and new product performance in Chinese firms. *Journal of product innovation management*, 21(6), 375-388.
- Woodman, R. W., Sawyer, J. E., & Griffin, R. W. (1993). Toward a theory of organizational creativity. *Academy of management review*, 18(2), 293-321.