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Transformational Leadership Promotes Innovation: Myth or Reality

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Abstract

Competitive advantage is essential for firm survival in this competitive environment. Innovation is vital to attain competitive advantage over competitors. Leadership plays an important role in affecting innovation. The main objective of this study is to investigate whether it is a myth or a reality that transformational leadership promotes innovation. Transformational leadership is conceptualized using five dimensions: individualized influence (attributed), individualized influence (behavior), inspirational motivation, intellectual stimulation, and individualized consideration. On the other hand, innovation is conceptualized as the firm’s propensity to develop new or improved products. The relationship of transformational leadership and innovation is hypothesized as positive association. Cluster sampling technique is used to collect data. The data is collected from 400 manufacturing sector small and medium enterprises (SMEs) of Pakistan. Structural Equation Modeling (SEM) is applied to test the hypothesis. The results of the study demonstrate the existence of a positive significant influence of transformational leadership on innovation.

Keywords: Transformational Leadership, Innovation, SMEs, SEM.

INTRODUCTION

Innovation is a vital antecedent in the competitive benefit of a firm (Woodman, Sawyer, & Griffin, 1993). Presently, SMEs are facing competitive environment featured by constant change, decreasing life cycles of products as well as globalization. For SMEs, innovation is necessary for further survival, growth, and competitiveness (Jung, Chow, & Wu, 2003; Tierney, Farmer, & Graen, 1999).

There are several definitions of innovation in the literature which include commonly accepted definition that refers to the proper and successful application of creative thoughts within a firm (Amabile, 1983, 1998; Amabile, Conti, Coon, Lazenby, & Herron, 1996). Therefore, innovation is a concept at the firm level (Oldham & Cummings, 1996).

Is it then a myth that transformational leadership augments innovation? Transformational leaders increase the behavioral hopes of their followers (Bass & Riggio, 2006) and search for followers’ personal ideas, which then shift to the stage of goals and needs (Jung, 2001). Researchers have investigated the consequences of transformational leadership on the behavior of followers and firms in previous years (Dvir, Eden, Avolio, & Shamir, 2002; Howell & Avolio, 1993; Lowe, Kroeck, & Sivasubramaniam, 1996). The contradictory results of these researches are the motivation of this study.

Numerous researches state that transformational leaders authorize or empower their followers (Jung & Sosik, 2002; Jung et al., 2003). This research suggests that intrinsic motivation of workers and their views of the workplace climate, empowerment and innovation, are the primary factors resulting in creativity.

