Leadership Styles, Absorptive Capacity and Firm’s Innovation

Saad G. Yaseen, Al-Zaytoonah University of Jordan, Amman, Jordan
Saib Al-Janaydab, Al-Zaytoonah University of Jordan, Amman, Jordan
Nesrine Abed Alc, Al-Zaytoonah University of Jordan, Amman, Jordan

ABSTRACT

The aim of this article is to investigate the relationship between leadership styles, absorptive capacity and firm’s innovation in the Jordanian Pharmaceutical sector. It is a knowledge-intensive industry and one where effective leadership has been very substantial. Findings reveal that transformational leadership style and transactional leadership style are antecedents to absorptive capacity and a firm’s innovation. The results confirm a significant and direct relationship between both leadership styles and firm innovation, and indirectly through absorptive capacity. Overall, the research’s findings provide valuable insights for managers to foster absorptive capacity and innovation of their firms.

KEYWORDS

Absorptive Capacity, Firm’s Innovation, Transactional Leadership, Transformational Leadership

INTRODUCTION

In our globalized and dynamic world, innovation drives competitiveness and business growth (Herrera, 2016; Drucker, 1985; Khalili, 2016; Chassagnon & Haned, 2015). Understanding the antecedents of innovation is essential to knowledge-intensive industry (Nonaka & Takeuchi, 1995; Yaseen et al., 2015; Chang et al., 2015). Leadership has been recognized as a key factor of firm’s innovation (Morales et al., 2012; Ryan & Tipu, 2013; Zheng et al., 2016). However, the existing literature is mainly focused on the influence of transformational leadership on innovation and performance (Morales et al., 2008; Nguyen et al., 2017; Gumusluoglu & IIsew, 2009). The relationship between transactional leadership and firm’s innovation is inconclusive (Chang et al., 2015). Various studies analyze the influence of transformational leadership style on organizational innovation and performance through intermediate constructs such as culture (Chen et al., 2012), empowerment (Jung et al., 2003), organizational learning (Morales et al., 2012), individualism, power distance, uncertainty avoidance (Engelen et al., 2014), and knowledge management (Biranave, 2014).

However, understanding associations between leadership styles, absorptive capacity and firm’s innovation is still limited, and inclusive. The conceptualization of the leadership roles in knowledge-based industry has become more complex, dynamic and changeable. Furthermore, very few studies have investigated the impact of leadership styles on firm’s innovation in non-western settings (Ryan & Tipu, 2013; Khakhar & Rammal, 2013), specifically, in the Arab world. Even though leadership research in non-western settings increase in recent years, limited attention has been paid to understanding innovation and leadership styles in the Arab World countries. Thus, the current research attempts to investigate the influence of leadership styles on firm’s innovation through absorptive capacity in
the Jordanian Pharmaceutical sector, one of the most knowledge-intensive industry, and one where effective leadership has been very substantial. Leadership styles; namely, transformational leadership and transactional leadership are expected to be the crucial factors influencing firm’s innovation.

**LITERATURE REVIEW**

**Leadership Styles**

The phenomenon of leadership is elusive in definitional clarity (Kempster & Parry, 2011; Wendt et al., 2009). According to (Burns, 1978), leadership requires understanding of the essence of power. The two essential of power are motive and resource. Thus, the leadership process can occur in one of two styles. It is either transactional or transformational (Bass et al., 1987; Bass, 1999). Transforming leaders look for potential motives in followers, seek to satisfy their needs and engage the full person of the follower (Burns, 1978). Transformational leaders inspire, intellectually stimulate, and individually consider their followers (Bass, 1999; Bass et al., 1987). In contrast, transactional leadership is characterized by contingent reward and management by exception (Bass et al., 1987; Bass, 1985).

Transaction leaders clarify expectations and reward subordinates when they achieve performance goals (Chang et al., 2015). They focus on contractual agreements to enhance subordinated motivations (Ryan & Tipu, 2013; Bass, 1985). While transformational leaders provide meaning and challenge to subordinates using inspiring words to arouse, emotions (Guay, 2013; Bass, 1995, 1988), broadening and elevating them (Cheung & Wong, 2011).

Transformational leadership is comprised of idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration (Bass & Avolio, 1995, 1993; Bass, 1988). Idealized influence or charisma means leader provides a vision, sense of mission, and inspires subordinates. Inspirational motivation suggests that leaders act as a model for subordinates (Verma et al., 2015). In intellectual stimulation, transformational leaders stimulate their follower’s efforts to be innovative and creative. Finally, transformational leadership is individually considerate, providing the follower with support, mentoring, and coaching (Bass & Riggio, 2008; Matzler et al., 2008).

Transactional leadership is characterized by positive contingent reward and the more negative active or passive forms of management-by-exception. Contingent reward involves the leader assigning follower to be done with promised or actual rewards (Chang et al., 2015). Management by exception tends to be more ineffective than contingent reward, as the leader arranges to actively monitor deviances from standards or waiting passively for deviances (Bass & Riggio, 2008; Burns, 1978; Bass, 1996).

In addition, the full range of leadership also includes several components of transactional leadership style along with laissez-faire (or non-leadership) behavior (Bass & Riggio, 2008; Bass & Avolio, 2004). Fundamental to the full-range leadership is that every leader displays each style to some amount (Bass, 1996). Furthermore, Bass (1998) did not agree with Burns (1978) that transformational and transactional leadership represent opposite ends of a single continuum (Judge & Piccolo, 2014). Avolio & Bass (1995) argued that the more effective leaders are both transactional in a path sense, and transformational (Avolio & Bass, 1995; Judge & Piccolo, 2004; Birasnav, 2014). However, many research studies have been completed in business, all of them showing that transformational leaders were more effective as leaders than transactional leaders (Bass, 1996; Avolio & Bass, 1995; Bass & Riggio, 2008; Kempster & Parry, 2011; Verma et al., 2015; Erkutlu, 2008). Thus, the current research addresses the gap in the literature by investigating the relationship between leadership styles; transformational style, transactional style, absorptive capacity and firm’s innovation in the Jordanian pharmaceutical companies. In doing this, the current research aims to understand the influence of transformational and transactional leadership styles on absorptive capacity and innovation.

The research model also argues to address the existence of a positive significant direct and indirect links between transactional leadership, transformational leadership and firm’s innovation.
The Learning Organization
Deborah Keller (2014). Knowledge Management Practice in Organizations: The View from Inside (pp. 183-198).
www.igi-global.com/chapter/the-learning-organization/98532?camid=4v1a