

ARTICLE

The role of transformational leadership and knowledge management processes on predicting product and process innovation: An empirical study developed in Kingdom of Bahrain

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Abstract Organizational innovation has always been considered as a powerful tool to sustain competitive advantage and to provide high value to customers. The purpose of this study is to empirically investigate the role of transformational leadership and knowledge management process on predicting product and process innovation. Data collected from 119 service firms located in Kingdom of Bahrain were used to test a conceptual model encompassing the linkages among transformational leadership, knowledge management process, product innovation, and process innovation. Results of hierarchical regression analyses showed that transformational leadership has direct influence over product and process innovation, and employees' day-to-day involvement in the knowledge management process such as acquiring, transferring, and applying knowledge have positive associations with product and process innovation. Findings also revealed that knowledge transfer and application partially mediated the relationship between transformational leadership and product innovation; knowledge acquisition and application completely mediated the relationship between transformational leadership and process innovation.

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1. Introduction

Firms nowadays focus on developing appropriate leadership behaviors to confront intensive competitive pressure and

to manage turbulent and uncertain environment. In order to help firms, researchers proved that transformational leadership behavior is very effective to improve organizational performance during uncertain environment and to achieve competitive advantage (for example, Nemanich & Keller, 2007). To improve organizational innovative capability, transformational leaders empower employees by providing sufficient autonomy to decide the way to perform job activities, promote organizational learning, and support

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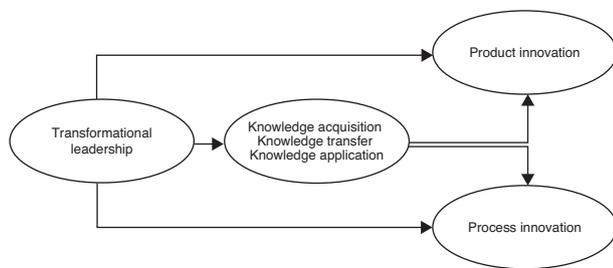


Figure 1 Conceptual model of this study.

employees to utilize all the available resources required to improve creativity (Aragon-Correa, Garcia-Morales, & Cordon-Pozo, 2007; Gumusluoglu & Ilsev, 2009; Jung, Wu, & Chow, 2008).

Organizations nowadays concentrate highly on activities that harness employees' knowledge to create organizational knowledge. Therefore, they create a knowledge management system in which knowledge infrastructure supports to implement knowledge management process. As a result, this system transforms organizational resources into capabilities, which become unique to the organizations. Apart from transformational leadership, knowledge management practices also have potential to improve the level of organizational innovation. For example, knowledge transfer between organizational units promotes organizational learning and mutual cooperation, which in turn, help the organization to create a new knowledge and to improve innovation (Tsai, 2001).

The above theories of transformational leadership and knowledge management have been given more attention for empirical investigations due to its powerful influence over organizational innovation and performance. Interestingly, though the additive effects of these theories on organizational innovation have sufficiently been explored in the literature, the additive effects of transformational leadership and knowledge management process on product and process innovation have not been explored in depth. There is also a dearth of studies explaining the combined effects of these theories on product and process innovation in the leadership literature. In this direction, this study develops a conceptual model (Fig. 1) and tests this model among service firms located in Kingdom of Bahrain. In particular, the purposes of this study are to examine the influence of transformational leadership and knowledge management process on both product and process innovation and to examine the role of knowledge management process in the relationship between transformational leadership and product and process innovation.

2. Literature review

2.1. Transformational leadership

The theory of transformational leadership has not been derived recently but discussions for development of such behaviors were begun among researchers in 70s (Burns, 1978). Transformational leaders are defined as leaders, who positively envision the future scenarios for the organizations, engage primarily in improving employees'

self-confidence by helping them to realize their potential, communicate an achievable mission and vision of the organizations to employees, and participate with employees to identify their needs and working out collaboratively to satisfy their needs (Peterson, Walumbwa, Byron, & Myrowitz, 2009). Based on their unconditional support to their employees, Bass (1985) identified four behaviors of this style, namely idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration and highlighted the influence of these behaviors over achieving employees' higher order needs. Idealized influence behavior provides a strong support for employees to respect and trust leaders, encourages leaders to communicate employees the need for the blend of risk and decision-making, and most importantly, aligns leaders' actions with the ethical ideology (Bass, Avolio, Jung, & Berson, 2003). Inspirational motivation enables leaders to set vision and mission for the future of the organization and to inspire employees toward achieving the organizational goals. Scholars describe charismatic leadership behavior as the mixture of both idealized influence and inspirational motivation (Bass & Riggio, 2006). Intellectual stimulation directs leaders to challenge employees' ways of performing routine tasks and to question the ways they choose to derive solutions. Lastly, individualized consideration behavior showcases leaders' mentor role of paying attention toward achieving the needs of employees and addressing the concerns of employees (Bass et al., 2003).

2.2. Knowledge management process

Lowendahl, Revang, and Fosstenlokken (2001) classify individual employee knowledge as know-what (explicit, unambiguous, and job-oriented knowledge), know-how (tacit, difficult to express, and tenure-based knowledge), and dispositional knowledge (combined knowledge of innovativeness, creativity, ability, and intuition). It is essential for organizations to formulate a variety of strategies to convert individual employee knowledge into organizational knowledge due to the reason that individual knowledge resides within an employee's brain, and so he/she creates and stocks new knowledge with himself/herself (Nonaka, 1994). Achieving and sustaining competitive advantage mostly depends on at what extent organizations leverage and manage individual employee's knowledge. In this direction, firms establish knowledge management system in which organizational structure, technology, and culture facilitate organizations to implement knowledge management process in the forms of acquisition, transfer, and application of knowledge (Chen & Huang, 2009). Acquiring knowledge from customers, suppliers, and external professional networks represents knowledge acquisition by any firms; knowledge transfer takes place among employees or units to exchange tacit or explicit knowledge gained by an employee or a unit; and knowledge application is a process of applying the combined employees' personal knowledge and customer or suppliers' experiences into products or services (Birasnav, Rangnekar, & Dalpati, 2011; Filius, De Jong, & Roelofs, 2000). Activities relating to the implementation of knowledge management process transform a traditional firm into an innovative firm, and thus, a firm distinguishes

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