EFFECT OF TRANSFORMATIONAL LEADERSHIP AND CREATIVITY AND INNOVATION ON ORGANIZATIONAL PERFORMANCE: A CONCEPTUAL MODEL

Thiaku Ramalingam
Open University Malaysia
thiaku@yahoo.com

Shishi Kumar Piaralal
Open University Malaysia
shishi@oum.edu.my

Zahir Osman
Open University Malaysia
Zahir_osman@oum.edu.my

Lawrence Arokiasamy
Asia Pacific University
lawrence.arokiasamy@apu.edu.my

Abstract

This study aims to understand the effect of transformational leadership and creativity and innovation on organizational performance of the Malaysia Telecommunication Mobile Operators. The targeted population of this study will be the executives working in the four major mobile operators with more than 5 years of working experience in the industry. The problem to be addressed in this study will be the rapid technological changes that needs telecommunication service providers to be adapt and address the performance gap to achieve competitive advantage. Transformational leadership style of the CEO is seen as the catalyst towards building a creative and innovative work force to drive organizational performance. The main objectives if this study is to determine the relationships that constitute transformational leadership (covering intellectual stimulation, individual consideration, idealized influence and inspirational motivation) creativity and innovation (organizational factor of structure, strategy, support mechanism and behavior) and organizational performance. The study attempts to offer significant theoretical and practical contribution.

Keywords: Transformational Leadership, Creativity and Innovation, Organizational Performance
1.0 Introduction

Transformational leadership (inspirational motivation, idealized influence, individual consideration and intellectual simulation) is defined as a style of leadership that emphasizes on collective interest between the employees of the organization working to achieve the same objective. It is in contrast with transactional leadership which focuses on individual interest and commitment towards the goal (Herrmann & Felfe, 2014; Boies, Fiset & Gill, 2015). According to Bass (1999), most organizations exhibit both transactional and transformational leadership to different degrees. However, this study will focus only on transformational leadership of the CEO who is has the biggest influence in the organization’s way of working. Creativity and innovation in an organization will be dependent on transformational leadership style of management (Jung, 2001; Bass & Riggio, 2006; Szczepan ska-Woszczyna, K., 2015). Leaders, especially the CEO who understands how their leadership styles effect on the climate of innovation and work behaviour supportive of innovativeness will create the most opportunities for creativity and innovation in their organisations which, in turn will enhance the performance of the organisation. Furthermore, leadership is a process whereby leader variables affect distal outcomes such as creativity and innovation (Fischer, Dietz, & Antonakis, 2017).

Creativity and innovation (organizational factors such as support mechanism, structure, strategy and behaviour) has become an essential to any organizations that wish to sustain their competitive advantage in today’s world that has higher growth of new knowledge, ideas and accelerated rate of globalization and research in the field has interesting findings (Anderson, Potocnik & Zhou, 2014). Creativity and innovation is often seen as a complex relationship and warrant for detailed analysis to prove its outcome (Mumford & McIntosh, 2017). Consequently, it raises the awareness to outline the determinants that supports or hinders an organizations’ attempt to be creative and innovative which will then make it possible in developing appropriate organization model to achieve success depicted by the organization’s vision and mission. On the other hand, the organization direction is dependent on the leadership style exerted by the CEO holding the top post and decision making authority.

Previous researches have revealed that creativity and innovation has a positive effect on organizational performance (Subramaniam, Othman & Sambasivan, 2010) while transformational leaders have been able to motivate and successfully lead their followers to levels of extraordinary performance (Md Yusof & Othman, 2016) in the organization. Organizational performance is often measured based on manager’s perception and such approach is acceptable to determine the extent of creativity and innovation as well (Nazri, Omar & Omar, 2018; Vij & Bedi, 2016) and often regarded as the mirror reflects the organization’s ability to compete (Tubigi & Al Shawi, 2015) with the right transformational leadership from the CEO.

Telecommunication industry is lived in a dynamic environment and often influenced by the events that happen around (Ben Zaied, Louati & AffesHabib, 2015). This study will examine the organizational performance outcome as influenced by the transformational leadership of the CEO and the extent of creativity and innovation to support it. The framework from study by Garcia-Morales, Jimenez-Barrio, Onuevo, & Gutierrez-Gutierrez (2012) is adapted to answer the questions regarding the relationship between these variable and is useful to minimize the gaps in companies that hamper the extent of these determinants. By understanding the background of this research, it is summarized that the objective of this paper is to establish the understanding of relationship between transformational leadership (idealized influence, intellectual stimulation, individual consideration and inspirational motivation),
creativity and innovation (organizational factor based on strategy structure, support mechanism and behaviour) and organizational performance. It will then be adapted to current mobile network operators in Malaysia constituting of both local and partial or fully foreign owned companies by having an empirical test on the conceptual model.

Additionally, it is noted that other related literatures lack studies which investigate the simultaneous effects of transformational leadership on organizational performance as mediated by creativity and innovation. The magnitude of the relationship is hugely variable and some studies are only experimental in nature (Boies et al., 2015) and lack of survey based field studies. The fast changing dynamics the telecommunication industry with technological revolutions require a transformational leader in the form of the CEO to drive creativity and innovation to continuously improve the organizational performance and driver towards competitive advantage. This is the gap that the following study intends to address.

2.0 Literature Review

2.1 Malaysian Telecommunication Services

The telecommunication industry remained the largest industry today, considering its significant role in facilitating everyone’s life (Hsu, 2017). This industry is continuously innovative in every aspect of how consumers can interact with each other. Mobile technology can be traced to its 0G history; in which it is the first mobile communication service right after the World War II. The evolution then happened with the advancement in 1G, 2G, 2.5G, 3G, and 4G. Telecommunication operators are forced to leave behind the old traditional business models and alter their strategies from voice-based subscription to innovative bundle plans that include internet data, voice, messages, etc. (Hajar, Ibrahim, harun & Al-Sharafi, 2020) with the emergence of 5G technology.

Malaysia has a competitive telecom sector that has thrived on the progressive opening up and reform of the local market. The changing commercial landscape has seen the significant restructuring of all the main players over time. Supported by the efforts of the government, there has been a general rationalisation of what was seen as an ‘overcrowded’ mobile operator market. During the first 10 years (from 1984 to 1995), the industry was monopolized by single mobile service organization; Celcom. Subsequently, through the government’s liberalization policy, the industry was opened up to other players, resulting in seven telecommunications players. Four big names are traditionally associated with Malaysian telco companies; Digi, Maxis, Celcom and U Mobile. The big three incumbent major telecommunication market share holder have been dominating the industry since the privatisation by the government and are listed on Bursa Malaysia. Meanwhile, U Mobile being the smallest among the big four have been very aggressive to make a mark in the very competitive market with more innovative approach in its promotion, pricing and rapid network roll-out capitalizing in the emergence of LTE technology (Yapp, 2017).

Digital transformation intensifies the need for network enhancement, talent management for digital services towards meeting consumers’ demand are among differentiating factors going forward. According to Tan Sri Dr.Halim Hafie (Chairman of MCMC), the industry change to support digital transformation in the telecommunication industry is essential to take Malaysia towards national
competition and drive towards realizing the goal of National Transformation 2050 (MCMC, 2017). Digital transformation is poised to drive operational efficiency and increase customer engagement for enterprises from industry verticals. In an effort to generate new economic avenues and ensure sustainable digital economy, the Government continues to emphasise on quality connectivity and affordability of communication and multimedia services. In 2018, service providers are expected to continue to deploy resources for fibre infrastructure and offering higher speed connectivity.

In 2021, the Malaysian wireless telecommunication services market is forecasted to have reached a staggering value of $5,207.5 million (Marketline, 2017). The existence of large players that dominate the market and benefit from economies of scale increases rivalry within the market. Competition in the Malaysian market is high as the market concentration around leading players is lower compared to other markets. Indeed, rivalry is induced by smaller but growing operators. The fact that many players in this concentrated market engage in competitive price setting also increases buyer power. Operating as an MVNO is one route to entering the market. The main substitutes for wireless telecommunications are fixed-line telephony, data communication and VoIP telephony.

In summary, telecommunication service providers are now strategically differentiating to focus on enhancing in various areas to increase organizational performance. Competitive advantage can be obtained by meeting customer demand for video content, shopping, banking transaction and other digital services with creative and innovative approach lead by transformational leadership.

2.2 Transformational Leadership

The transformational leadership style has received extensive popularity as compared with other styles of leadership among leadership researchers (Mittal & Dhar, 2015; Khalili, 2016). Despite the fact that there is a vast body of literature on transformational leadership, it has remained one of the most misunderstood element (Gandolfi & Stone, 2016). Transformational leadership has been defined in terms of idealised influence, inspirational motivation, intellectual stimulation and individual consideration (Vasilaki, Tarba, Ahammad & Glaister, 2016). Transformational leadership plays a critical role in causing changes necessary for effective management in an organisation (Buil, Martinez & Matute, 2018). As suggested by Kim (2014), “Transformational leaders have the ability to transform organizations through their vision for the future, and by clarifying their vision, they can empower the employees to take responsibility for achieving that vision.”As depicted by Lu, Xie & Guo (2018), the current organizational and management research, one of the main mission is to delineate boundary conditions of a certain theory or studied phenomenon when describe transformational leadership. In this study, transformational leadership is looked as flexible trait based on recommendation by Lu et al., (2018) in identifying its effect on creativity and innovation and organizational performance.

2.3 Creativity and Innovation (Organizational Factor)

Creativity and innovation are nuanced concepts that each incorporate a number of distinct but closely related processes that result in distinct but often closely related outcomes (Anderson et al., 2014). Given the complex and dynamic nature of both creativity and innovation (Mumford & McIntosh, 2017), it is perhaps unsurprising that they have often proven difficult to define and measure (Batey, 2012). Creativity and innovation can take place in multiple aspects; it can be technical, organizational or even
social factors (Kanther, 1983). Due to the complexity of business environment, organizations realized that creativity and innovations is an intangible asset for organizational performance. (Abualloush, Bataineh, & Aladwan, 2017; Hussinki, Ritala, Vanhala, & Kianto, 2017). Thus, this study will consider creativity and innovation in the context of organizational factor by evaluating the determinants that promotes or hinders the notion of creativity and innovation.

2.4 Organizational Performance

Organizational Performance is a complex and multidimensional phenomenon in the business literature (Ebrahim, 2018). Traditionally, performance measurement of an organizational system is a complex interrelationship between six performance criteria’s’ mainly: effectiveness, efficiency, quality, productivity, innovation and profitability. However, most of these criteria’s’ tend to be multidimensional in nature and are context dependent. According to Antony & Bhattacharyya (2010), organizational performance needs to be measured along multiple levels: the organizational level, the key process level and the work unit level, requiring complementary dimensions. This paper however only uses the method of comparative and internally reflective performance measures and limiting to assess performance at organizational level to be consistent with similar approach to understand creativity and innovation based on organizational factor. For example, “Compared with the industry average, our organization is more profitable” and internally reflective performance measures, for example, “We are more profitable than we were five years ago”. The measures were adapted from the study by Darroch (2005). These unit measurements capture both financial aspects (e.g. profitability) and non-financial aspects (e.g. market share and sales growth) of organizational performance.

2.5 Conceptual Model

Transformational leadership relates to different approaches to promote creativity (Gupta, Singh, Kumar & Bhattacharya, 2012). Additionally, transformational leaders can motivate workers to harness the creative environment and to stimulate employees to work innovatively (Khalili, 2016). Transformational leaders share knowledge, promote novel ideas & support employees to think out of the box (Jyoti & Dev, 2015; Prasad & Junni, 2016). Many empirical researches in the past has proved the positive relationship between transformational leadership and innovation (Uddin, Fan & Das, 2017). Hence the following hypothesis is posited:

\[ H1. \text{ There is a positive relationship between transformational leadership and creativity and innovation} \]

A key factor in the success of organizational performance is the extent of their innovation capability which is defined by the cultural readiness and appreciation towards inducing creativity and innovation as organization factor (Hult, Hurley & Knight, 2004). Furthermore, companies need to adapt innovation in order to sustain and survive in a volatile environment (Johnson, Meyer, Berkowitz, Ethingon & Miller, 1997). Creativity and Innovativeness have been found to have a positive influence on business performance (Yamin, Mavondo, Gunasekaran & Sarros, 1997). Scholars argued that organizations must be creative and superior in their ideas to achieve the desired excellence to improve organizational performance (Obeidat, Tarhini, Masa’deh & Aqqad, 2017). On this basis, it is hypothesized that:
**H2:** There is a positive relationship between creativity and innovation with organizational performance

Transformational leadership proved to be a catalyst towards increasing employee performance and commitment towards work (Masi and Cooke, 2000; Sparks and Schenk, 2001; Goodwin, Wotford & Whittington, 2001). This is transformed into a stimulus to increase organizational performance by having more motivated employees (Bono and Judge, 2003). Organizational performance is an element that collectively achieved through the achievement of each employee’s performance (Yang & Hwang, 2014) with transformational leadership leading the change. Accordingly; consistent with the literature review, the follow hypothesis is constructed:

**H3:** There is a positive relationship between inspirational motivation and organizational performance

The relationship between organizational level variables and performance are mediated by innovation. Organization structure provided the internal configuration, including communication and resource flows that are crucial for innovation to occur (Russel, 1990). Organizational capabilities provide organizations with the inputs that it requires creating innovation that in turn can facilitate to provide organizations with superior performance (Eisenhardt & Martin, 2000). Gumusluoglu and Ilsev (2009) mentioned that the processes that mediate in the relationship between transformational leadership and organizational performance should be carefully examined given their importance in the globalised market. These arguments support the following hypothesis:

**H4:** The relationship between transformational leadership and organizational performance is mediated by creativity and innovation

Based on the theory of resources and prior discussion related to all the variables, the conceptual model is developed as follows:
The conceptual model in this research is to be adapted from the study of Garcia-Morales et al. (2012) which exhibited the relationship between transformational leadership and organization performance with creativity and innovation acting as the mediation variable between the antecedent and outcome in the study of Automotive industry in Spain. Additionally, the study by Martins & Terblanche (2003) was incorporated into the model to further breakdown the determinants behind creativity and innovation; while the empirical research by Jyoti and Dev (2015) supported the variables adapted under transformational leadership. Lastly, organization performance assessment is based on combination of research by Darroch (2005) and Pedro, Simosa & Daniel (2015).

3.0 Conclusion

This conceptual model will be tested empirically in the telecommunication industry and hopefully the finding will offer significant theoretical and practical contribution to the study of transformational leadership and innovation and its effect on organizational performance. Managerial implication of this model include the understanding of the impact of transformational leadership on the organization’s creativity and innovative practices. The conceptual model can be also be used in future researches to test and explain the relationship. It can explore the relationship of the variables in other industries beyond telecommunication. In addition, academicians can use the additional latest knowledge in theory behind transformational leadership, creativity and innovation and organizational performance.

4.0 References


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