

Role of Transformational Leadership and its Components on Organizational Innovation through Employee Engagement: Evidence from Pakistan

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ABSTRACT

Keywords:

Organizational Innovation (OI),
Transformational Leadership (TL),
Drivers of Transformational
Leadership, Employee Engagement
(EE).

In spite of all the resources and a growing talent pool, the level of organizational innovative culture remains low in Pakistani organizations. Thus, there arises the need to identify the factors that can enhance innovative practices in Pakistan. Therefore, the purpose of this study is to investigate the key role of transformational leadership in Pakistani organizations together with employee engagement on Pakistani organizations innovative performance. To investigate this phenomenon of interest 400 valid responses, purposively collected, were analyzed via simple regression and PROCESS macro. The results indicate that a positive and significant relationships exist between all of the study variables except one. The results also show that the direct effect of transformational (TL) leadership on organizational innovation (OI) is not significant in the presence of employee engagement (EE) as a mediator, indicating that engaged employees are more likely to contribute in the organizational innovation practices. The current study provides important implications for the organizational leaders and strategy makers, the limitations of study and proposes recommendation for future research.

INTRODUCTION

In today's fast paced environment, organizational innovative performance has become the key source of competitive advantage. Over the past few decades, it is becoming imperative for business leaders to create innovative culture within their organizations in order to stay in the market to ensure organizational strength and future viability. The importance of innovation as a source of continuous socio-economic development is evident from research (Bessant & Tidd, 2015). With the lack of innovation over a long period of time, the best products gradually become old news and there arises the need for creativity, new approaches and actions to avoid lagging behind in the fast-paced business arena. Innovation and its driving forces have always captured the interest of researchers. Inquisitive researchers from numerous fields have investigated the factors that drive organizational innovation in different industries, and a large number of factors have been identified that affect the innovation in technology, products, services

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and other operational processes. Research shows that no single clear conceptual framework exists in literature for understanding the phenomenon of Organizational Innovation (Lam, 2004). This conceptual indeterminacy tends to show that Organizational Innovation actually reflects a wide range of phenomenon and has multiple determinants as well as outcomes. Most studies have focused on; communication (Groen & Linton, 2010), organizational innovation and firm performance (Jong & Kemp, 2003), leadership roles and styles (Ashutosh, 2014), policy implementation (Zmud & Apple, 1992), sense of mission (Chen, Li, & Tang, 2009), CEO personality characteristics (Papadakis & Bourantas, 1998), managerial cognition (Belassi & Fadlalla, 1998), administrators' support (Drazin & Schoonhoven, 1996), organizational commitment (Jaramillo, Mulki, & Marshall., 2005), and demographics such as size, industry and culture among many others.

An area that has recently acquired great interest of researchers is the leadership impact on an organization's growth and innovation. The social-psychological attitudes of the top management are a critical contingency in organization design and strategy (Lewin & Stephens, 1994). An organization is influenced by the innovative attitude of its top management than any other environmental or demographic figures (Damanpour & Schneider, 2006). The more proactive a CEO's personality is, higher will be the influence on the innovative culture in the organization, leading to exploration of numerous exceptional alternatives in terms of products or services (Guo, Katila, Maggitti, & Tesluk, 2017).

A study has investigated the leadership behaviors and personality characteristics that enhance the organizational innovation. The results indicated that the highest influence on innovation is caused by transformational leadership behavior with personality characteristics of risk-taking propensity and innovativeness (Howell & Higgins, 1990). Moreover, there exists a positive link between transformational style of leadership and organizational innovation which also enhances empowerment of employees and organizational climate becomes more supportive towards innovation (Jung, Chow, & Wu, 2003). A CEO with qualities of a transformational leader contributes to a culture of exploration, risk-taking, innovation and creativity-based rewards (Boonitt, 2016). These streams of research suggest that leaders' personality characteristics can have an important influence on overall organizational innovation. The important concept that came up with the review of numerous researches is Transformational Leadership. On the other hand, when a business organization wants to revolutionize in terms of business growth and success, it requires full support from its employees. Evidently, a culture of growth and innovation cannot be achieved if the employees are not engaged in the company's operations. Employee engagement is a concept that has recently gained a lot of emphasis by the

researchers and is being identified as one of the major sources of achieving organizational innovation. EE is a psychological state that empowers the employees to be engaged in their work roles physically, cognitively as well as emotionally (Kahn, 1990). It is a concept which includes engagement of psychological state, behavior and traits (Macey & Schneider, 2008). Research proved that employees' engagement and commitment towards the organization can be enhanced through transformational leadership by inducing intrinsic motivation and goal commitment (Piccolo & Colquitt, 2006). Another research showed that empowerment of employees is enhanced by transformational leadership which ultimately improves employee engagement (Dvir, Eden, Avolio, & Shamir, 2002). Consequently, a higher level of employee engagement (Perko, Kinnunen, Tolvanen, & Feldt, 2016) results in an enhanced creative culture and promotes innovation. Innovation through EE is a relatively new subject of interest for researchers as well as the corporate leaders.

Rationale

In spite of all the resources and a growing talent pool, the level of innovative culture remains low in Pakistan. Like, according to the 2016 Rankings of Global Innovation Index, Pakistan is among the least innovative countries in the world, positioned at 119 out of 128 countries. Thus, there arises the need to identify the factor(s) that can enhance organizational innovation practices in the context of Pakistan.

Theoretical Background

The theory on which the structure and theoretical background of this research is based is the Leader–Member Exchange (LMX) and Social Exchange Theory (SET). Basically, Leader-Member Exchange is a leadership approach based on the two-way relationship between the leader and his/her followers (Graen & Uhl-Bien, 1995). According to this theory, a leader develops a specific exchange with every individual, and this influencing relationship determines the level of a followers' dedication, responsibility, performance and decision making. Consequently, it promotes employee engagement. LMX model thus supports this study by predicting the direct impact of TL on EE. The Social Exchange Theory (SET) provides a theoretical base for the positive relationship between EE and their creativity and innovation. According to this theory, when the employees are more engaged and individual consideration is provided and supported by intrinsic motivation, they feel socially obliged to return something to the organization that is investing into their betterment (Homans, 1958). Thus, EE can play the role of a precursor as well as a catalyst for OI.

LITERATURE REVIEW

Organizational Innovation (OI)

Organizational Innovation basically is the implementation of any innovative technique or method in a firm's business operations, organizational setup or its relationships with external entities (OECD, 2005). It is the implementation of an idea or behavior that is original for the organization (Daft, 1978). Different names have been given to organizational innovation such as organizational creation, product and process innovation, creativity, innovativeness, modernization or organizational revolution and change. In other words, OI refers to the process of gaining a competitive edge through the introduction of novel and original ways of how work can be done within an organization. It involves the management of business operations by individuals in multiple areas like knowledge management, employee retention and development and customer care (Kustoff, 2015). Some other researchers are of the view that it as an adoption of new concepts, technologies or behaviors in the organizational context. Thus, innovation can be of a new technology, a novel product, an original process, a new organizational structure or a pioneering management approach. Innovation, including product, process and administrative innovations, has been termed as the life blood of today's corporate survival and growth (Zahra & G.Covin, 1994). Whereas, some research shows that no single clear conceptual framework exists in literature for understanding the phenomenon of Organizational Innovation (Lam, 2004). This conceptual indeterminacy tends to show that Organizational Innovation actually reflects a wide range of phenomenon and has multiple determinants as well as outcomes.

Transformational Leadership (TL)

Transformational Leadership (TL) can be defined as the "leadership characterized by the ability to bring about significant change in the followers and organization" (Daft, 2011). This concept was initially developed in 1970s by James McGregor Burns for political leaders but it has been applied immensely in business leadership as well. From all the different leadership theories, the one that most aptly relates to what a leader should be is transformational leadership. Transformational leaders work together with their followers to achieve a common goal. A transformational leader is someone who inspires the followers to look past their immediate self-interests and work towards organizational goals through

“*idealized influence*” (charisma), “*inspirational motivation*”, “*intellectual stimulation*”, and “*individualized consideration*”. It instills the aim for achievement and well-being of others in the followers and improves their maturity level and standards (Bass & Steidlmeier, 1999). In reference to the study of Bass, TL has four components, commonly known as the “*Four I’s*”. These components explain the characteristics of a transformational leader:

- **Inspirational Motivation (IM):** Inspirational motivation (IM) is displayed when a leader envisions a desirable future and is able to motivate and inspire the followers towards its achievement. The leader has a charisma which induces determination and confidence in the followers. The leader provides meaningful and challenging tasks to instill a sense of achievement in the followers (Avolio & Bass, 2002).
- **Intellectual Stimulation (IS):** The leader continuously challenges the followers towards higher levels of performance and urges them towards creative development and innovation. This transformational leadership component is a vital part of this research.
- **Individualized Consideration (IC):** It is displayed when the leader shows concern and empathy for each and every follower individually and takes care of their developmental needs and emotions. The leader constantly provides growth opportunities by delegating important tasks to the followers and also provide professional coaching and support.
- **Idealized Influence (II):** The leader sets an ideal example and high standards of performance for the followers and “walks the talk” which has a positive influence on the followers. The followers idealize the leader as their role model and their mutual level of trust is strengthened. A leader with idealized influence also represents ethical and moral integrity which leads to a greater degree of trust (Tracey & Hinkin, 1998).

All these transformational leadership behaviors ultimately result in the empowerment of followers which lead to maximum performance outcome (Behling & McFillen, 1996). Despite of several other styles of leadership, transformational leadership is selected as a major determinant of innovation because the characteristics of transformational leader enables the employee creativity and stirs the intellectual capabilities to unleash the maximum potential of employees leading to organizational innovation.

Employee Engagement (EE)

Employee engagement (EE) basically is “a psychological state that empowers the employees to be engaged in their work roles physically, cognitively and emotionally” (Kahn, 1990). Various scholars and practitioners have constantly refined the concept of engagement over time. The level of commitment and contribution of an employee for the organization is termed as employee engagement (Sundaray, 2011). Engaged employees develop a positive attitude towards the organization.

Several researchers have proved that organizations that engage their employees more tend to outperform their competitors in terms of organizational health, growth, long-term stability and financial profitability. Business executives in the corporate world now consider the development of highly engaged workforce as their highest priority (Ketter, 2008). What the leaders need to do to ensure maximum employee engagement has been summarized as the ten C’s of employee engagement which include “connect”, “career”, “clarity”, “convey”, “congratulate”, “contribute”, “control”, “collaborate”, “credibility” and “confidence” (Seijts & Crim, 2006). Employee engagement is an optimistic state of mind related to a person’s job and is composed of dedication, vigor and absorption (Schaufeli, Martínez, Pinto, Salanova, & Bakker, 2002). It is a more persistent and cognitive behavior that focuses not only on a single person but on the overall behavior of the workforce in an organization. According to a Gallup report, the entire world is facing an employee engagement crisis which can have radical consequences on the economy worldwide. As the 2016 report says, the percentage of employee engagement in U.S is 32% whereas, only 13% employees are engaged with their work globally. Moreover, apart from occasional ebbs and flows, the level of employee engagement has appeared to be stagnant, since Gallup started keeping track and recording employee engagement in 2000 (Mann & Harter, 2016). Thus, the importance of employee engagement in organizations simply cannot be denied.

Transformational Leadership and Innovation

The theory of TL supports the notion that a leader’s characteristics are one of the determinants of innovation (Conger, 1987). As evident from different fields of research, the kind of leadership practiced in an organization does have a significant impact on the level of innovation in an organization. The main question now is the direction, intensity and significance of this impact. Recently, the researchers have

been linking transformation leadership with learning orientation and creativity which leads to innovation (Gong, Huang, & Farh, 2009). Transformational leaders do not try to control their followers. They allow the followers to use their own ideas and let them use creativity which results in an innovative culture in the organization. A very significant research in this area is by Shin and Zhou (2003) in which they have proved how TL can be positively linked with employee creativity and innovative mindset. Under transformational leaders, the followers perform productively and introduce original and useful ideas for products, services and processes with a long-term potential (Shalley, Zhou, & Oldham, 2004). Creative employees can play a substantial role in promoting innovation, organizational effectiveness and survival (Amabile & Herron, 1996).

One of the traits possessed by transformational leaders is inspirational motivation. It is displayed when a leader envisions a desirable future and is able to motivate and inspire the followers towards its achievement (Avolio & Bass, 2002). Motivation is a key factor in developing the potential and creativity of the staff which can lead to innovation. Inspirational motivation (IM) used by the leaders is positively related to innovative behavior (Sethibe & Steyn, 2017). A study conducted in Iran shows similar results that inspirational motivation, intellectual stimulation and charisma attributed to a leader are positively related to OI (Mokhber, Ismail, & Vakilbashi, 2015). Thus, when the leader has an objective of improving employee creativity and effective conversion of creative ideas into innovative products and processes, inspirational motivation and intellectual stimulation have an important role to play. As suggested in the literature, it can be deduced that:

- *Inspirational Motivation (IM) has a positive impact on Organizational Innovation (OI).*
- *Intellectual Stimulation (IS) has a positive impact on Organizational Innovation (OI).*

However, against ordinary expectations, some researchers have reported a negative relationship between idealized influence (II) and innovative behavior (Sethibe & Steyn, 2017). The effect of II on organizational behavior is opposite to common perceptions and is shown to be negative (Mokhber, Ismail, & Vakilbashi, 2015). When leaders exhibit idealized influence, the followers look up to their leaders as ideal role models and try to replicate their work and behaviors to reach the organizational objectives (Oke, Munshi, & Walumbwa, 2009). Bass (2006) has explained this phenomenon in detail. Although the leaders use idealized influence to empower and motivate the followers, the charisma of the leader executing idealized influence could have a negative influence on innovative behavior, mainly because of an increased dependence on the leader. Instead of working towards organizational goals, the

goal of employees is to imitate their leaders implementing the influence (Bass & Riggio, 2006). Whereas, the individual consideration is found to positively influence innovative behavior of employees (Sethibe & Steyn, 2017). Thus, with reference to the literature discussed above, it can be deduced that:

- *Individualized Consideration (IC) has a positive impact on Organizational Innovation (OI).*
- *Idealized Influence (II) has a negative impact on Organizational Innovation (OI).*

Research suggests that the type of innovation undertaken by business enterprises will have an impact on the overall innovative performance and that there exists a direct and positive link between TL and the innovation performance of small and medium enterprises (SMEs) with a similar positive impact on product innovation (Saad & Mazzarol, 2010). One of the traits of transformational leaders is the individualized consideration (IC) which means that the leaders consider all followers as human beings rather than employees and work towards their individual development as a person and as an employee. When leaders show such a commitment to people, the followers are most likely to reciprocate by generating new ideas and enthusiastically contributing their efforts to the organization which can result in increased levels of OI (Pfeffer, 1995).

As discussed in the literature above, it can be inferred that:

- *Transformational Leadership (TL) has a positive impact on Organizational Innovation (OI).*

Transformational Leadership and Employee Engagement

In the context of working environment, EE and TL are closely related as proved by several studies conducted in the organizational setting. The correlation between the two has appeared to be strong and positive (Ghafoor, Qureshi, Khan, & Hijazi, 2011). In a study conducted on the South African Army, a positive relationship was empirically found among the officers with transformational leadership style and the levels of work engagement in the followers. Another research conducted on civil servants in Kenya revealed that the leader behaviors of individualized consideration (IC) and intellectual stimulation (IS) positively and moderately influence employee engagement (Evelyn & Elegwa, 2015). Leaders who practice transformational leadership along with constructive transaction increase their followers' vigor, dedication and absorption. Leaders who model the way by setting an example and inspire a shared vision enhance the level of employee work engagement (Dibley & Edward, 2009).

As discussed in the literature above, it can be inferred that:

- *Transformational Leadership (TL) positively influences Employee Engagement (EE).*

Employee Engagement as A Mediator

Innovation through EE is a relatively new subject of interest for researchers as well as the corporate leaders. A high level of EE leads to innovative behavior. Therefore, engagement and innovation reinforce each other (Rao, 2016). In a recent survey conducted by Gallup (2015), employees who are more engaged are involved in, enthusiastic and committed to their work which results in their participation in innovation. According to a study, innovation or creativity cannot be carried out through disengaged employees by imposing it on them. The level of EE spurs creativity and innovation in employees and it is expedient not to expect innovation without engaging the employees (Gichohi, 2014). Hence, the investigation for organizational innovation necessitates that TL and EE be examined in detail to understand their inter-relationships in a better way and to propose a model for improving innovativeness in corporate organizations. A recent study conducted in Korean business organizations proved that transformational leadership practices significantly increase the knowledge creation and innovative practices (Song, Kolb, Lee, & Kim, 2012). Based on the social exchange and leadership theory, a research conducted in China's telecommunication sector showed that transformational leadership significantly influences followers' work engagement which leads to innovative behavior. This innovative behavior relates to task performance, where all these inter-relationships are mediated by leader-member exchange (Aryee, Walumbwa, Zhou, & Hartnell, 2012). As discussed in the literature above, it can be inferred that:

- *Employee engagement (EE) has a positive impact on organization innovation (OI).*
- *Employee Engagement (EE) mediates the relationship between Transformational Leadership (TL) and Organizational Innovation (OI).*

METHODOLOGY

Philosophy of the current study is positivism with deductive approach. A survey-based approach and mono-method was used for data collection as the authors' belief that reality is external to them. The

sampling technique deployed was Non-Probability-purposive sampling. This technique was selected based on the researcher's intent and knowledge about the population that needed to be studied. Questionnaires were filled by employees from various commercial business organizations mainly from the telecommunication sector at one point of time. The organizations selected were from within the twin cities of Islamabad and Rawalpindi. A total of 500 structured questionnaires were floated, through distribution as well as through self-administration (sample size was determined on sample size calculator by taking considering confidence level 95%, margin of error 4.4% and population proportion 50%). After completion, the received questionnaires were 430 out of which 400 were fully completed and thus utilized to derive results of the study. All the direct hypotheses were tested via linear Regression and mediation analysis was tested via PROCESS macro-a newly technique strongly recommended by Hayes (2013).

Measures

The survey was conducted through a designed structured questionnaire which was divided into three major sections and demographics, with a total of 54 items. For all the 54 items in the first three sections, the responses were recorded on a 5-point Likert Scale for all the variables, where '1' stands for "Strongly Disagree" and '5' indicates "Strongly Agree".

- ***Transformational Leadership:***
- The measure used for transformational leadership is known as Multifactor Leadership Questionnaire (MLQ). This instrument was created by Bernard M. Bass and B.J. Avolio in which 20 items related to transformational leadership are measured using a five-point Likert scale (Bass & Avolio, 1995).
- ***Employee Engagement:***
- Employee Engagement scale applied for this study was the Utrecht Work Engagement Scale (UWES) designed by Schaufeli and Bakker (2004).
- ***Organizational Innovation:***
- The scale used for organizational innovation is developed by Hurt & Teigen (1977).

ANALYSIS AND RESULTS

Data Screening

Before progressing towards the ultimate hypothesis testing, it is important to carefully monitor and screen out the data for outliers, missing values and normality. Z-test is applied to check for outliers normality was examined via Skewness and Kurtosis, no missing value was found in the data set to dealt with.

Descriptive Analysis of The Demographic Variables

A sum of 500 structured questionnaires were floated among the respondents out of which 430 were received. 400 questionnaires were filled and were thus included in the analysis, details are shown in Table 1.

Table 1 Demographic Variables Profile

Variables	Responses	Frequency	Percentage %	Mean	Standard Deviation
Gender	Male	272	68%	1.32	0.47
	Female	128	32%		
Age	Less than 20	0	-	2.3	0.5
	20-30	288	72%		
	31-40	104	26%		
	41-50	8	2%		
	Above 50	0	-		
Qualification	Secondary	0	-	3.48	0.54
	Higher Secondary	8	2%		
	Bachelors	192	48%		
	Masters	200	50%		
Work Experience	Doctorate or above	0	-	2.6	1.2
	Less than 1 year	72	18%		
	1-3 years	152	38%		
	4-6 years	80	20%		
	7-9 years	56	14%		
10 years or above	40	10%			

Reliability Analysis

To test the reliability of the data and the scales used for data collection, Cronbach Alpha is calculated. For a scale to be reliable, the value of Cronbach Alpha needs to be greater than 0.7 (Cronbach, 1951). As for this study, the value of Cronbach is found to be above 0.7 for all the study variables and most

values lie in the range of 0.8 to 0.9. A summary of number of items of every scale along with the values of their Cronbach Alpha is presented in Table 2, which shows that all the scales used for the study have good Alpha values, thus indicating that the data collected for this study is reliable.

Table 2 Reliability Analysis

	Cronbach's Alpha	No. of items
"Employee Engagement" (EE)	0.841	9
"Idealized Influence" (II)	0.892	8
"Inspirational Motivation" (IM)	0.705	4
"Intellectual Stimulation" (IS)	0.846	4
"Individualized Consideration" (IC)	0.804	4
"Transformational Leadership" (TL)	0.917	20
"Organizational Innovation" (OI)	0.865	25

Regression Analysis

To test the linear associations between dependent and independent variable, research experts have developed a statistical method called linear regression (Sekaran, 2003). Linear regression analysis is applied to test the study hypotheses and identify the influence of the independent factors on the dependent variable of the particular study (Cooper & Emory, 1995). Separate regression analysis has been run for each individual hypothesis in order to test the one-to-one relationships among the variables in an organized way. All the regression analyses conducted are described in the following section.

Regression analysis for hypothesis H1-H4

Linear regression was run to test the 4 hypotheses. The results from SPSS show that "inspirational motivation", "intellectual stimulation", "individualized consideration" has a positive and significant influence on "organizational innovation", whereas, "idealized influence" has a significant negative affect on OI (see Table 3).

Table 3 Direct Relationships Coefficients of H1-H4

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	
	B	Std. Error	Beta			
1	(Constant)	1.327	.659		2.014	.050
	IM	.617	.166	.473	3.722	.001
	IS	.591	.123	.568	4.783	.000
	IC	.568	.138	.510	4.111	.000
	II	-0.877	.279	-0.413	-3.139	.003

a. Dependent Variable: OI

Mediation Analysis H5-H8

EE mediates the relationship between TL and OI.

PROCESS macro by Andrew F. Hayes analysis was used on SPSS to investigate the hypothesis that EE mediates the effect of TL on OI. There are four different paths calculated in this method, namely a , b , c and c' .

To determine path a , $TL \rightarrow EE$ is tested first. The results showed this relationship to be significant with $F(1,398) = 39.3$ and $p = 0.000$. The values of β for TL is 0.671 and $SE = 0.098$. The results also indicate that employee engagement is a significant predictor of organizational innovation (OI) at $F(2, 397) = 30.68$ and $p = 0.000$ which is less than 0.05. Path b is shown by the value of β for EE that is 0.624 and $SE=0.125$. The next step shows the regression of $TL \rightarrow OI$, ignoring the mediator. TL on OI without mediator EE, also termed as path c . Results show this relationship to be significant with $F(1, 398) = 39.42$ and $p = 0.000$. In this case, the value of β for TL is 0.672 and $SE = 0.107$. This indicates the total effect of TL on OI.

However, when the impact of TL on OI is tested in the presence of EE as a mediator, this relationship becomes insignificant and transformational leadership no longer remains a significant predictor of organizational innovation, thus supporting the mediation hypothesis. In this case, the value of $F(2, 397) = 22.87$ and $p = 0.1329$ which is not less than 0.05, hence proving the direct effect of TL on OI to be insignificant. The value of Direct Effect of TL on OI in the presence of mediator EE, also termed as Path c' is found to be $\beta = 0.254$, with $SE = 0.1422$.

Lastly, the Indirect Effect ($a*b$) was tested using bootstrapping estimation method with 5000 samples (Shrout & Bolger, 2002). The result indicates that the indirect effect of TL on OI in the presence of EE is significant with a coefficient of $\beta = 0.4187$. The other values include $SE = 0.1134$, lower limit confidence interval LLCI = 0.1522 and upper limit confidence interval ULCI = 0.2786. Here, the CI does not include zero value which is also an indicator that mediation has occurred (Hayes A. F., 2013). The results are presented in table 4.

Table 4 Mediation Analysis for Hypotheses; H5- H8

Antecedent		M (EE)			Consequent				
		β	SE	P		β	SE	Y (OI)	
X (TL)	A	0.671	0.098	0.000	c'	0.254	0.142	0.132	
M (EE)		---	---	---	b	0.624	0.125	0.000	
Constant	i_1	1.443	0.383	0.000	i_2	0.822	0.468	0.000	

$R^2 = 0.450$	$R^2 = 0.390$
$F(1,398) = 39.32, p = 0.000$	$F(2,397) = 30.68, p = 0.000$
	LLCI ULCI
	(95% CI)
Total Effect: TL-->OI	0.672 0.107 0.4452 0.8893
Direct Effect: TL-->OI	0.254 0.142 -0.0245 0.1846
Indirect Effect: TL-->EE-->OI	0.418 0.113 0.1522 0.2786

The following figure 4.1 summarizes the results of the mediation analysis

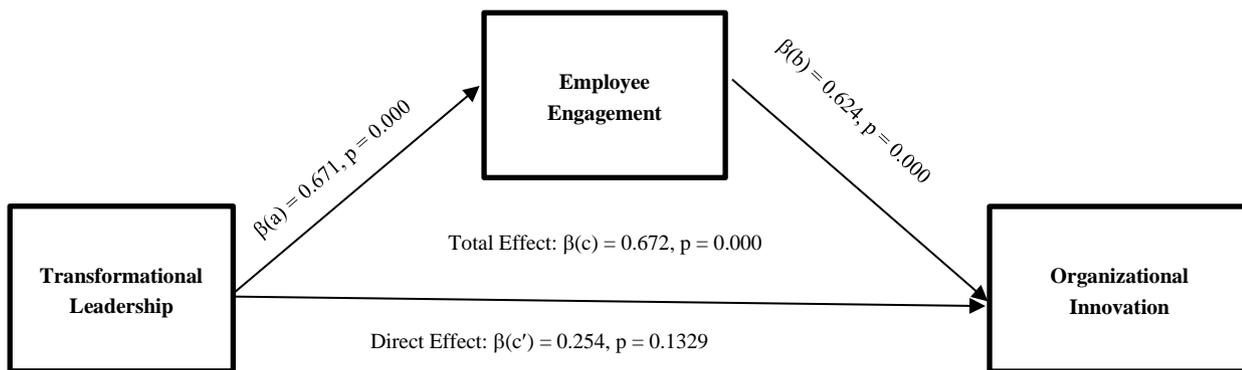


Figure 4.1. Summary of Mediation Analysis

Discussion on Hypotheses

Inspirational motivation and organizational Innovation:

Inspirational motivation was observed to be positively associated with organizational innovation which supported the proposed study hypothesis. According to a recent study, innovative behavior is positively influenced by inspirational motivation behavior showed by the organizational leaders (Sethibe & Steyn,

2017). A study conducted in Iran also supports this result and proves that inspirational motivation (IM) is significantly and positively related to OI (Mokhber, Ismail, & Vakilbashi, 2015). Similarly, development of innovative talents and overall organizational innovation can be achieved through people-oriented strategy, training and inspirational motivation of employees (Lu & Wang, 2015). Therefore, it can be said that higher the level of inspirational motivation leadership behavior executed by a leader, higher will be the level of organizational innovation in a firm.

Intellectual stimulation and organizational innovation:

Intellectual stimulation (IS) is the leader behavior when leaders urge their followers to explore their individual creativity and innovative ideas by challenging assumptions, reorganizing problems and looking at multiple ways of solving problems (Avolio & Bass, 2002). The development of human capital is vital to any organization. According to Lu & Wang (2015), to unleash the innovative potential and growth, organizations should try to give top priority to human resource development and act as a catalyst in stimulating the innovative capacities and creativity (Lu & Wang, 2015). Additionally, intellectual stimulation along with knowledge sharing has significant and positive impact on innovation (Manafi & Subramaniam, 2015). This coincides with the proposed hypothesis as intellectual stimulation positively influences the overall organizational innovation.

Individualized consideration and organizational innovation:

According to Avolio and Bass (2002), a transformational leader provides individual attention and consideration to each and every follower which helps to foster individual growth, creativity and personal need for achievement. Leaders who practice individualized consideration encourage the followers to give a free rein to their maximum potential and supports their innovative ideas. Such individualized consideration also involves task delegation along with continuous monitoring, support and feedback. Individual consideration is positively related to innovative behavior of employees (Sethibe & Steyn, 2017). Moreover, individualized consideration (IC) is the TL dimension that influence the innovative behavior of employees (Mokhber, Ismail, & Vakilbashi, 2015). Therefore, it supports the findings of the current study that a positive relationship exists between individualized consideration by transformational leaders and innovation at the organizational level.

Idealized influence and organizational innovation:

If the focus is only on idealized influence of a leader and its impact on OI, most of the existing literature shows a negative relationship between the two variables. According to Sethibe & Steyn (2017), common expectation for the impact of idealized influence on innovation is positive, just like all other components of transformational leadership. However, results show that this relationship is a negative one (Sethibe & Steyn, 2017).

Similarly, against the common perception, the effect of idealized influence on organizational behavior is negative (Mokhber, Ismail, & Vakilbashi, 2015). Influenced by their ideal leaders, the followers look up to the leaders as their role models and try to replicate their work and behaviors which can act as hindrance to their own creativity and innovation (Oke, Munshi, & Walumbwa, 2009). Bass (2006) has explained this phenomenon in detail. Although the purpose of idealized influence is to empower and motivate the followers, a high level of dependence on the leader can have a negative impact on innovative behavior of employees (Bass & Riggio, 2006). The present study supports these findings and shows a significantly negative relationship between II and OI.

Transformational leadership, employee engagement and organizational innovation:

Transformational leaders are trusted by the followers in terms of their vision, integrity and strength of character Hadi and Rasool (2017) which results in the followers working towards fostering an innovative environment in the organization (Conger, 1987). Among different public leadership styles, transformational style of leadership is the most effective and favorable style in terms of organizational innovation (Ricard, Klijn, Lewis, & Ysa, 2016). When leaders are helpful, inspiring and considerate towards every follower, the followers are most likely to reciprocate by generating new ideas and enthusiastically contributing their efforts to the organization which can result in increased levels of organizational innovation (Pfeffer, 1995). To conclude, the literature supports the findings of current study that there is a significant positive effect of TL on OI.

Since, the aim of this study was to identify how EE can mediate TL and OI relationship, through vigor, dedication and absorption. According to Zhu et al. (2009), the positive relationship between TL on followers' work engagement is further strengthened by positive employee characteristics (Zhu, Avolio, & Walumbwa, 2009). Furthermore, research suggests that there is a strong positive relationship between TL and innovation implementation behavior, mediated by the perception of employees on work

engagement and initiative culture (Michealis, Stegmaier, & Sonntag, 2010). Similarly, it can be found in literature that TL practices significantly increase the innovative practices in an organization, where the level of employees' work engagement strengthens the relationship between the two and also acts as a statistically significant mediator for this particular relationship (Song, Kolb, Lee, & Kim, 2012). Therefore, it supports the present findings that the positive and significant relationship between TL and OI is mediated and strengthened by EE.

CONCLUSIONS

The purpose of this research was the investigation of TL styles on OI and then the role of TL on OI through EE. First, the style of leadership and the strength of leader-member relation has a significant amount of influence on the level of OI. This is because the more constructive and supportive a leadership style is, the higher will be an employee's work engagement and intention to contribute towards the achievement of an organization's innovation goals. The characteristics of a transformational leader, except for idealized influence, contribute towards the development of organizational innovation. Employee engagement is also an influential mediator between this relationship, as it is highly unlikely to elicit innovative intention and ability out of disengaged employees who feel no sense of commitment, vigor, dedication or absorption in their work or the organization. Once the employees have transformational leaders who focus on their individual development, only then they feel committed and engaged to their work and their organization's objectives. Consequently, engaged employees are more likely to contribute in the organizational innovation practices. Hence, transformational leadership and its components have a significant relation with employee engagement. Hence, it can be inferred that organizational innovation is significantly affected by the variables included in this study, understanding of which can help both the management and the employees in business organizations.

Limitations and Future Research

While collecting the data, the unit of analysis was employees working in business organizations and the demographics show that most of the respondents for this study lie between the age bracket of 20-30 years. Therefore, this particular study can be conducted on employees from other age groups as well. Similarly, the study can also be replicated in other segments such as fresh hires, lower, middle and upper level employees and so on. Moreover, a very important future research suggestion is that the current

research can be narrowed down in scope and be applied to a particular field or sector of business such as education, banking, technology, automobiles and textiles etc.

Furthermore, due to limited resources, the data collection for this research has been restricted to the twin cities of Islamabad and Rawalpindi. Thus, in order to increase the generalizability of the research findings in the future, the collection of data can be extended to other geographic areas within or outside the country. In the current research, the impact of TL and its components i.e. “inspirational motivation”, “intellectual stimulation”, “individualized consideration” and “idealized influence” on OI is studied. In the future, the influence of other leadership styles such as “transactional leadership”, “democratic” and “autocratic leadership” on OI can be examined. This research has taken EE as a mediator between OI and transformational component of strategic leadership. There are certain other variables which can be taken as a mediator or moderator of this particular relationship such as organizational size, organizational culture, type of industry, cluster or non-cluster firm and many others, after a detailed analysis of the existing literature. Non-probability purposive sampling technique has been applied for this research. However, to expand the generalizability of research findings, other sampling techniques can also be applied to this study.

Implications

This study provides guidance for the organizational leaders, owners or managers, to better design their company’s innovative strategies through inclusive mechanism and make an effort to gain insight into the drivers of organizational innovation. It also holds importance for the employees for recognizing the leadership style of their management and their own level of involvement in their work and workplace, which helps to better analyze their vigor, dedication and absorption in their work, which consequently leads to organizational innovation. It is necessary for the leaders to ensure that the leadership style they adopt is inclusive and transformational rather than aloof, detached and transactional in order to engage employees at a higher level, as disengaged workforce is a growing concern all over the world.

Companies need to pay attention to their employees with innovative capabilities and should build on this strength through transformational leadership practices i.e. individualized consideration, inspirational motivational and intellectual stimulation of these employees. Organizational innovation is imperative in the context of Pakistan as growing stagnancy has blocked the paths of growth and innovation in almost every business sector of the country, affecting the country’s overall economic growth and profitability. Because of the mediating effect of employee engagement, the top management should work on the

satisfaction and involvement of employees, without which the organizational innovation goals are impossible to achieve. As the companies are becoming more and more competitive and more aware of the importance of innovation; therefore, in order to ensure long-term organizational innovation, companies should work on the development of transformational and charismatic leaders who can lead the organization towards its innovation goals and objectives through active involvement, new initiatives and employee engagement. The transformational leaders need to build optimism, passion and direct communication links among the followers. They should provide challenging and analytical tasks that force the employees to think out of the box, which helps to promote innovative culture. The leaders should delegate the tasks and provide opportunities for individual growth which helps to build an employee's creativity and innovation, consequently leading to the development of overall organizational innovation.

Moreover, this study adds significant insights to the innovation literature in terms of leadership behavior while linking it with employee engagement. The results obtained from this study can be utilized in improving the understanding of the researchers regarding the impact of strategic leadership in terms of four key factors of transformational leadership, namely individualized consideration, intellectual stimulation, inspirational motivation and idealized influence, on organizational innovation. Moreover, this research would add to the knowledge of academicians as to how engaged employees impact the overall organizational innovation.

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