

**TRANSFORMATIONAL LEADERSHIP AND
ORGANISATIONAL PERFORMANCE OF
MALAYSIAN E&E MNCS: THE MEDIATING
EFFECT OF TEAMWORK COHESION,
ORGANISATIONAL LEARNING AND
ORGANISATIONAL INNOVATION**

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UNIVERSITI SAINS MALAYSIA

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by

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LIST OF ABBREVIATIONS

AVE	Average Variance Extract
CMV	Common Method Variance
CR	Composite Reliability
ET	Economic Transformation Programme
GoF	Goodness-Of-Fit
HR	Human Resource
MIDA	Malaysian Investment Development Authority
MLQ	Multifactor Leadership Questionnaire
MNC	Multinational Companies
NEM	New Economic Model
NKEA	National Key Economic Areas (NKEAs)
OCB	Organisational Citizenship Behaviour
OECD	The Organisation for Economic Co-operation and Development
PLS	Partial Least Squares
R-A	Resource Advantage
RBV	Resource-Based VIEW
ROA	Return on Assets
SEM	Structural Equation Modelling
VIF	Variance Inflation Factor

**KEPIMPINAN TRANSFORMASIONAL DAN PRESTASI ORGANISASI
SYARIKAT MULTINASIONAL DALAM SEKTOR E&E DI MALAYSIA:
KESAN PERPADUAN DALAM PASUKAN, PEMBELAJARAN ORGANISASI,
DAN INOVASI ORGANISASI SEBAGAI PERANTARA**

ABSTRAK

Kajian ini dijalankan dengan melihat kepada hubungan di antara kepimpinan transformasional, perpaduan pasukan, pembelajaran organisasi, dan inovasi organisasi ke atas prestasi organisasi syarikat multinasional (MNCs) di dalam sektor (Elektrik dan Elektronik) E&E di Malaysia. Berdasarkan teori berasaskan sumber, kajian yang dijalankan ini adalah bertujuan untuk memahami hubungan secara langsung di antara kepimpinan transformasional (pertimbangan individu, stimulasi intelektual, motivasi inspirasi, dan pengaruh ideal) dan perpaduan dalam pasukan, pembelajaran organisasi, dan inovasi organisasi serta hubungan secara langsung dengan prestasi organisasi (kewangan dan bukan kewangan). Di samping itu, kajian ini juga mengkaji kesan perpaduan di dalam pasukan, pembelajaran organisasi dan inovasi organisasi ke atas hubungan di antara kepimpinan transformasi dengan prestasi organisasi. Data bagi kajian ini telah dikumpulkan daripada 169 MNCs dalam sektor E&E di Malaysia. Syarikat-syarikat MNCs ini telah didaftarkan dan disenaraikan dengan Lembaga Pembangunan Pelaburan Malaysia (MIDA). Data telah dianalisis dengan menggunakan kaedah SPSS dan SmartPLS. Hasil kajian ini menunjukkan bahawa pengaruh ideal tidak mempunyai kesan terhadap perpaduan di dalam pasukan. Di samping itu, pengaruh ideal

dan pertimbangan individu tidak mempunyai hubungan yang positif dengan pembelajaran organisasi. Selain dari itu, pengaruh ideal dikenal pasti sebagai tidak mempunyai hubungan yang signifikan dengan inovasi organisasi. Hasil kajian ini juga mendapati bahawa hubungan kepimpinan transformasi dan prestasi organisasi mempunyai hubungan secara langsung melalui pembolehubah perantara. Justeru, perpaduan di dalam pasukan dan inovasi organisasi mempunyai hubungan yang positif dengan prestasi kewangan dan bukan kewangan organisasi, tetapi pembelajaran organisasi mempunyai hubungan yang negatif dengan prestasi kewangan dan bukan-kewangan organisasi. Kajian ini mendapati bahawa perpaduan di dalam pasukan mempunyai kesan perantara ke atas hubungan di antara motivasi inspirasi dengan prestasi bukan kewangan organisasi. Manakala, pembelajaran organisasi tidak bertindak sebagai perantara di dalam hubungan di antara kepimpinan transformasional dan prestasi organisasi. Akhir sekali, inovasi organisasi mempunyai kesan perantara di dalam hubungan di antara pertimbangan individu dan pengaruh ideal dengan prestasi kewangan organisasi. Inovasi organisasi juga bertindak sebagai perantara di dalam hubungan di antara pertimbangan individu dan motivasi inspirasi dengan prestasi bukan kewangan organisasi. Di samping itu, hasil daripada kajian ini memberikan pemahaman yang baik tentang peranan perantara perpaduan di dalam pasukan, pembelajaran organisasi dan inovasi organisasi ke atas hubungan di antara kepimpinan transformasional dan prestasi organisasi MNCs dalam sektor E&E di Malaysia. Secara keseluruhannya, adalah diharapkan supaya hasil kajian empirikal ini dapat membantu sektor E&E di Malaysia menjadi lebih kompetitif. Cadangan kajian pada masa yang akan datang turut dibincangkan.

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ABSTRACT

This research focuses on the relationship between transformational leadership, teamwork cohesion, organisational learning, organisational innovation and organisational performance of MNCs in the Malaysian E&E sector. Drawing on the resource-based view, this research aims to understand the direct relationship between transformational leadership (individualised consideration, intellectual stimulation, inspirational motivation, and idealised influence) and teamwork cohesion, organisational learning, and organisational innovation as well as the relationship with organisational performance (financial and non-financial). This research also examines the mediating effect of teamwork cohesion, organisational learning and organisational innovation on the relationship between transformational leadership and organisational performance. Data were collected from 169 registered MNCs in the Malaysian E&E sector. These MNCs are registered and listed on the Malaysian Investment Development Authority (MIDA) directory. Data collected were analysed using both SPSS and SmartPLS. The findings showed that individualised consideration, intellectual stimulation, and inspirational motivation have significant effect on teamwork cohesion. Also, intellectual stimulation and inspirational motivation were positively related to organisational learning. In addition, individualised consideration, intellectual stimulation, and

inspirational motivation were significantly related to organisational innovation. The findings affirmed that the relationship between transformational leadership and organisational performance are linked via the mediating variables. Teamwork cohesion and organisational innovation were positively related to financial and non-financial organisational performance, but organisational learning was negatively related to financial and non-financial organisational performance. Teamwork cohesion mediated only the relationship between inspirational motivation and non-financial organisational performance. However, organisational learning did not mediate the relationship between transformational leadership and organisational performance. Lastly, organisational innovation-mediated the relationships between individualised consideration and idealised influence and financial organisational performance. Organisational innovation also mediated the relationship between individualised consideration and inspirational motivation and non-financial organisational performance. Finally, this study provides a better understanding of the mediating role of teamwork cohesion, organisational learning and organisational innovation on the relationship between transformational leadership and organisational performance of MNCs in the Malaysian E&E sector. This study is significant for MNCs by highlighting the importance of transformational leadership, teamwork cohesion, and organisational innovation in influencing organisational performance in the Malaysian E&E sector. For policy makers and government, this study encourages the development of teamwork and organisational innovation in E&E sector conducive to long-term value creation in the Malaysian economic plan. It is hoped that the empirical evidence from this study can help the Malaysian E&E sector become more competitive.

CHAPTER ONE

INTRODUCTION

1.1 Introduction

The present study investigates the relationship between transformational leadership, teamwork cohesion, organisational learning, organisational innovation and organisational performance of multinational companies (MNCs) in the Malaysian E&E sector. This chapter contains the background of the study, problem statement, research objectives and research questions. The significance of the study, definition of key terms and organisation of chapters are also presented.

1.2 Background of the Study

The E&E sector is part of the 12 National Key Economic Areas (NKEAs) in Malaysia's Economic Transformation Programme (ETP) and is expected to record noticeable growth in line with ETP projections (ETP, 2013). However, the Malaysian ETP reports that the Malaysian economy is dominated by MNCs plagued by low skills, low research and development and innovation intensity (OECD, 2011). Further, in comparing with the OECD South East Asia average, Malaysia underperforms in research and development (OECD, 2011). Accordingly, the Malaysian E&E sector cannot compete with regional competitors such as China and Vietnam which have lower cost factors including cost of labour. Nonetheless, the Malaysian E&E sector struggles with significant challenges in maintaining growth in competition with Singapore, China, Taiwan and other Asian countries.

Its inability to compete has resulted in a declining share in Malaysian exports over the last 10 years (ETP, 2013). Its focus has usually been on assembly which is considered a lower value-added part of the industry, while countries like South Korea, Singapore and Taiwan have achieved higher value-added activity levels such as design, research and development and manufacturing. This has significantly affected the performance of the E&E sector in Malaysia.

In this study, organisational performance includes financial and non-financial performance. Chandler and Hanks (1993) included profitability, sales turnover, sales growth, return on investment, and market share as part of financial performance. For Hoque (2004), non-financial performance is related to the satisfaction that includes customer satisfaction, customer retention, employee satisfaction, relationship with suppliers, and workplace industrial relations (Ahmad, Wilson, & Kummerow, 2011; Aziz & Mahmood, 2011; Sajilan & Tehseen, 2015; Tahir & Abdul 2013). Organisational performance has been found to be directly and indirectly influenced by leadership (Avey, Avolio, & Luthans, 2011; Bass & Avolio, 2004; Moynihan, Pandey, & Wright, 2012; Walumbwa & Hartnell, 2011; Wang, Tsui, & Xin, 2011).

Many researchers found that leadership style is a top influential factor impacting creativity behaviour and performance (Denti & Hemlin, 2012; Jung, Chow, & Wu, 2008; Khan & Aslam, 2012; Sarros, Cooper, & Santora, 2008). As such, how organisational leaders influence their human resources to work together for the benefit and success of their organisations has become a critical issue in Malaysia (Osman, Ho, & Carmen Galang, 2011; Rowley & Ulrich, 2012). Rolfe (2011) commented that organisations need transformational leaders able to provide new direction, inspiration, and behaviours for their organisations. These leaders are the change

agents in the organisation and are crucial in an ever-changing world because they are one of the most direct influential factors of employees' creativity and performance (Tuan, 2011).

Transformational leaders influence team cohesiveness (Korsgaard, Schweiger, & Sapienza, 1995). Organisations need effective leaders to transform people and promote organisational learning. Organisational learning and innovation are more important than before for survival, competition, growth and leadership to remain successful in the industry (Bass, Avolio, Jung, & Berson, 2003; Khan & Aslam, 2012; Jung et al., 2008).

Existing studies also reported the positive influence of transformational leaders on organisational innovation (Berson, Nemanich, Waldman, Galvin, & Keller, 2006; Gumusluoglu & Ilsev, 2009; Hu, Gu, & Chen, 2013; Isaksen & Akkermans, 2011; Khan, Rehman, & Fatima, 2009; Paulsen, Callan, Ayoko, & Saunders, 2013; Poppendick, 2009). According to Afshari et al., (2011) and Khan and Aslam (2012), the limited literature on how transformational leadership style affects the innovative organisational climate further leading to organisational innovation is surprising although many argued that leadership is essential for innovation to take place. Since previous empirical studies mostly examined the effects of a leadership role at the individual level rather than organisation level (Khan & Aslam, 2012; Paulsen et al., 2013), the present study will investigate teamwork cohesion and innovation at the organisation level. The researcher proposes that teamwork cohesion also plays a critical motivational factor in influencing organisational performance.

Although studies examined the direct linkages between transformational leadership and teamwork cohesion, organisational learning, organisational innovation and organisational performance, few studies examine the mediating role of teamwork cohesion, organisational

learning, and organisational innovation. Therefore, the purpose of the present study is to investigate if teamwork cohesion, organisational learning, and organisational innovation mediate the relationship between transformational leadership and organisational performance of the MNCs in the Malaysian E&E sector.

1.2.1 Background of the Malaysian Electrical and Electronics (E&E) Sector

An important contributor to Malaysia's economy is the E&E sector which is a prioritised policy and investment focus by the government and is listed as one of 12 NKEAs in the nation's ETP (See Figure 1.1). These 12 NKEAs are expected to make substantial contributions to Malaysia's economic performance. The E&E sector is the leading sector in Malaysia's manufacturing industry, contributing a significant 32.8% of Malaysia's export and 27.2% of employment in 2013 (MIDA, 2015). It comprises four sub-sectors which are consumer electronics, electronic components, industrial electronics and electrical.

The Malaysian E&E sector struggles with significant challenges in maintaining growth in competition with Singapore, China, Taiwan and other Asian countries. The share of the E&E sector in Malaysian exports has been declined over the past decades (ETP, 2013). The following challenges highlight the main issues faced by the sector:



Figure 1.1 12 National Key Economic Areas (NKEAs) (Handbook New Economic Model Malaysia, 2015)

First, the E&E sector's share of Malaysia's exports and the economy has declined. The E& E sector's contribution to Malaysian exports increased considerably during the 1970s and 1980s when the country was industrialised and initiated enabling policies like free trade zones. However, the sector's exports declined from 59% in 2000 to 41% in 2009 (ETP, 2013).

Second, the E&E sector is struggling with growing competition from China, which is becoming the world's factory and a significant threat. A study by World Bank demonstrates that export competition between Malaysia and China is increasing. Malaysian exports to the European Union were intimidated by China, which was 31% in 1990 and reached 59% in 2007

(ETP, 2013). Due to its low-cost and high-end products, Vietnam is another new threat to the Malaysian economy. Countries such as Taiwan and Singapore also actively compete with Malaysia in higher value activities (ETP, 2013).

Third, focusing on assembly results in lower value-added. Malaysia has a noticeable presence in the E&E sector, but much of the contribution is in low value-added activities like assembly rather than activities of higher value such as research and development or manufacturing. Even in a classy and semiconductor cluster of Penang, most activities are in testing and assembly rather than manufacturing resulting in only about RM70, 000 of the value-added per worker, which is roughly equal to China but only a fifth of Singapore (ETP, 2013).

Fourth, Malaysia remains an integral part of the E&E global value chain, but at 44% the share of value-added in exports is relatively low. This is partly due to limited domestic linkages. Compared to other countries, the contribution from domestic intermediaries to the value-added of exports is only 7% in Malaysia compared to 31% in Korea. This finding is supported by analysis of enterprise survey data, which finds that multinationals in Malaysia source less than 40% of their inputs from domestic firms compared to 46% in Vietnam and 82% in China (ETP, 2013).

Fifth, Malaysia has a significant chance of development on almost all important factors for industry players. To avoid competing directly with countries like China, Malaysia needs to move up the value chain by offering the right working environment, availability of talent, communications and government facilitation along with technical networks (ETP, 2013).

Lee (2008) compared innovation propensities in Malaysian MNCs by using data from the National Survey of Innovation. He found that foreign firms compared to local firms differ little

in research and development capabilities which may cause MNCs to be more innovative in the home countries and open few centres in overseas.

Although Malaysian GDP growth is not related to the fate of the E&E sector, declining global growth has caused a decrease in such exports and instability in global markets. To make Malaysia less dependent on assembly activities, continuous innovation is required to convey high value-added processes and products (NEM, 2011). Innovation, proxied by the extent of the research and development activity is fundamental for MNCs to move up to the value chain. In other words, lack of innovation may eventually lead to the shortage of related researchers and research and development results. Hence, an insistent search for higher value-added processes and products and the capacity to commercialise them are crucial for global competitiveness in this sector. World Bank has conducted a survey on manufacturing that indicates Malaysian firms are very slow in developing innovative processes compared to similar countries (NEM, 2011).

Surveys carried out by the World Bank in 2002 and 2007 pointed out that Malaysian firms focus on less complicated activities, like upgrading present product lines and equipment. They seldom choose to undertake activities which lead to greater innovation and require the filing of official documents. Even manufacturing firms which should be the most innovative still focus on less complicated activities. In short, Malaysia's efforts for innovation suffered a general decline from 2002 to 2007 (NEM, 2011).

Even though it is reassuring that technical and technological upgrading are beginning to happen in the E&E sector, it is reasonable to declare that it is not changing fast enough and on the level capable of generating significant externalities and to advance the entire industry. There are few firms occupied with high-end activities such as research and development, product or

chip design and wafer fabrication. Furthermore, the Malaysian E&E sector is far behind in “linkages” like technology transfer of local suppliers, and cooperative efforts between firms and other institutions on technology research and development. Further efforts to incorporate more advanced technologic establishments owned by foreigners into the economy can improve knowledge in the local economy (NEM, 2011).

1.3 Problem Statement

According to the Malaysian Economic Transformation Plan (ETP, 2013), the main challenges faced by the Malaysian E&E sector are the dwindling share of exports which severely affect their performance as well as low value-added activities like assembly versus high-growth and high-value sectors, lack of right working environment, availability of talents, communications and government facilitation. NEM (2011) highlights the lack of innovation in industrial and export sectors that lead to the shortage of related research and development. Further, the Malaysian economy is dominated by MNCs plagued by low skills, low research and development and innovation intensity (OECD, 2011). These issues suggest that the MNCs in the E&E sector lack innovation, which affects their organisational performance. This problem forms the focus of the present study.

Leadership is vital to achieving competitive advantage (İşçana, Ersarı, & Naktiyokc, 2014). It is more important in driving toward business targets since; Malaysian government has been taking actions toward boosting innovation (Bagheri, Lope Pihie, & Krauss, 2013). Formal innovation education has failed to teach the skills needed for leading industries (Bagheri et al., 2013; Nian, Bakar, & Islam, 2014).

The transition toward a knowledge economy requires Malaysian business leaders to be systematic in how they ensure the sustainability of their organisations by achieving business targets without compromising the cohesiveness of their communities (Bagheri et al., 2013; Nian et al., 2014). As Wahat, Krauss, and Othman (2013) point out, the development of leadership in Malaysia should go hand in hand with organisational strategy, “As leaders are the ones who define an organisation’s performance”. The main leadership challenge for MNCs in Malaysia is enhancing competitiveness. Together with redesigning the organisations to remain competitive in the transforming economic landscape and a new type of competition on both local and global markets, the leadership style is the key challenge for MNCs in Malaysia (Rahman, 2012).

The study of leadership in the Malaysian context, especially on theoretical frameworks of leadership preferences, behaviours, and power influence, is limited (Ullberg & Kundla, 2014). Yusoff (2011) found that due to cultural values and beliefs, Malaysian leaders lack a self-serving attitude by placing the interests of subordinates above their own. He opines that Malaysian managers rated transformational leadership as a highly important contributor to outstanding leadership.

In other cultures and countries, many previous studies on transformational leadership were found to have positive impacts on the organisation. Lo, Ramayah, and Wang (2015), as well as Thompson, Templeton and Ballenger (2013), indicate that transformational leadership had resulted in higher levels of effectiveness and outcomes. Several studies have also concentrated on the relationship between transformational leadership and personality (Brandt & Laiho, 2013; Obiwuru, Okwu, Akpa, & Nwankwere, 2011). Recently, researchers in Malaysia have focused on the mediating variables that affect the relationship between transformational

leadership and organisational performance (Ismail, Mohamed, Sulaiman, Mohamad, & Yusuf, 2011; Khan & Rashid, 2012; Lee, Cheng, Yeung & Lai, 2011; Radzi, Hui, Jenatabadi, Kasim, & Radu, 2013; Sabir, Sohail, & Khan, 2011; Voon, Lo, Ngui, & Ayob, 2011). Despite these studies, there is a paucity of mediating factors in transformational leadership and organisational performance in Malaysia.

One of the characteristics of the successful innovative organisation is to build and maintain team cohesiveness (Lokshin, Gils, & Bauer, 2009). Researchers have proved that teamwork cohesion improving team performance (Sudhakar, Farooq, & Patnaik, 2011; Yang, Huang, & Wu, 2011). Teamwork cohesion in an organisation refers to the ability of people who work together in it with complementary skills and interactions that create a team spirit with cohesion, which will obtain planned objectives (Bhat, Verma, Rangnekar & Barua, 2012; Shen, Jackson, Ding, Yuan, Zhao, Dou, & Zhang, 2014). Successful teamwork is a result of supportive leaders (García- Morales, Matías- Reche, & Verdú- Jover, 2011). Thus, leaders have to encourage and support teamwork cohesion (Tanco, Jaca, Viles, Mateo, & Santos, 2011; Valsecchi, Wise, Mueller, & Smith, 2012). Moreno, García-Morales and Lloréns-Montes (2013) found that less support from the leader is a top reason of teamwork failure. Therefore, leaders, have to motivate others and try to achieve cohesiveness among the members to work efficiently (García- Morales et al., 2011; Hassan, Khalid, & Zamir, 2013; Lloréns-Montes et al., 2013; Lloréns-Montes, Ruiz, Moreno, & García-Morales, 2005).

The findings of the present study are particularly important for MNCs as it provides important insights on how transformational leadership affects teamwork cohesion, organisational learning, organisational innovation and thus affecting organisational performance. Addressing

the issue of fostering teamwork in the present study, the researcher argues that the relationship between transformational leadership with organisational performance can be enhanced through teamwork cohesion. Transformational leadership is enhancing organisational performance through motivation and inspiring followers especially when they are influencing their work environment, that is, when teamwork cohesion is high. Employees' teamwork cohesion would, therefore, mediate the effectiveness of transformational leadership on organisational performance (García-Morales et al., 2011).

In the present study organisational performance refers to both financial and non-financial performance that has been used in the recent studies (García-Morales, Jiménez-Barrionuevo, & Gutiérrez-Gutiérrez, 2012; Pérez-López, & Alegre, 2012; Rasula, Vuksic, & Stemberger, 2012; Yousif Al-Hakim, & Hassan, 2013). The importance of organisational learning and its relationship to effective performance has been reviewed extensively (Hassan et al., 2013; Santos-Vijande, López-Sánchez, & Trespalacios, 2012; Widjaja & Wirawan, 2012). The main goal of organisational learning is to improve performance quantity and quality, enhance and increase sales; get more support and maintain customer (Hassan et al., 2013). Also, organisations that learn will increase strategic capability and sustainability in competitive advantage (Hassan et al., 2013). These behaviours, strategies, and attitudes of organisational learning will improve organisational performance (Widjaja & Wirawan, 2012).

Since there is little proven empirical analysis of the relationship between organisational learning and organisational performance, researchers (García-Morales et al., 2011; Lloréns-Montes et al., 2013) recommend investigating the effect of organisational learning on

performance in E&E organisations because there little empirical knowledge is available about the transforming mechanism of organisational learning into performance.

Raj and Srivastava (2014) highlighted that transformational leadership has an impact on organisational innovation as the individual and organisational levels. However, Khan and Aslam (2012) concluded that the effect of transformational leadership and creativity is at the individual level, but the effect of innovation is at the organisational level. Organisational innovation, which refers to a firm's capability to initiate and implement innovations with speed, is pivotal to its survival and growth (Büschgens, Bausch, & Balkin, 2013; Hassan et al., 2013; Raj & Srivastava, 2014; Yu, Dong, Shen, Khalifa, & Hao, 2013).

However, there is a lack of research proving the mediating role of organisational innovation in the relationship between transformational leadership and organisational performance. This study adopts the definition of organisational innovation by García-Morales et al., (2012) that includes new products and processes. New products that provide a cost reduction can replace existing products and can offer similar benefits and performance at a lower cost. This definition has been used in several studies (Julian, Wangbenmad, Mohamad & Ahmed, 2013; Leahy, 2013; Liem, 2014; Shum, 2015).

Literature has proven the direct relationship between transformational leadership and organisational performance (García-Morales et al., 2012; Grant, 2012; Jing & Avery, 2011; Moynihan et al., 2012; Wang, Courtright, & Colbert, 2011; Walumbwa & Hartnell, 2011) as well as mediators such as intrinsic motivation, trust, group confidence, and cohesion (Barton & Barton, 2011; Price & Weiss, 2011; Tung & Chang, 2011; Wang & Howell, 2012; Wang et al., 2011). In the present study, the researcher suspects that teamwork cohesion may play mediating

role as suggested by Hsiao and Chang (2011), who found the mediating effect of cohesion. This study proposes that teamwork cohesion may play a mediating role on the relationship between transformational leadership and organisational performance.

Organisational learning and organisational performance have been found to be related to each other (Bhat et al., 2012; Curseu, Boros, & Oerlemans, 2012; Druskat & Kayes, 2000; Sessa, London, Pingor, Gullu & Patel, 2011). Similarly, transformational leadership has been proven to have a direct effect on organisational performance (Engelen, Gupta, Strenger, & Brettel, 2015; García-Morales, 2012; Grant, 2012; García-Morales et al., 2008a; Hoffman, Bynum, Piccolo, & Sutton, 2011; Moynihan, Pandey, & Wright, 2012; Nübold, Dörr, & Maier, 2015; Obiwuru, Okwu, Akpa, & Nwankwere, 2011; Wang, Courtright, & Colbert, 2011). However, there is little proven empirical analysis of the mediating role of organisational learning (Camps & Rodríguez, 2011; García-Morales; 2012; Hsiao & Chang, 2011; Lloréns-Montes et al., 2005; Noruzy, Dalfard, Azhdari, Nazari-Shirkouhi, & Rezazadeh, 2013). Hence, this study investigates the indirect effect of organisational learning on the relationship between transformational leadership and organisational performance.

As discussed in the preceding paragraphs, it is proposed that transformational leaders may stimulate organisational performance through teamwork cohesion (García-Morales et al., 2012; Hassan et al., 2013; Lloréns-Montes et al., 2013), organisational learning (Camps & Rodríguez, 2011; Hsiao & Chang, 2011; Noruzy et al., 2013), and organisational innovation (Bass & Riggio, 2006; Denti & Hemlin, 2012; Hoon Song et al., 2012) which motivates employees toward organisational performance. Therefore, this study investigates if teamwork

cohesion, organisation learning, and organisation innovation mediate the relationship between transformational leadership and organisational performance.

1.4 Research Objectives

The present study will examine the relationship between transformational leadership on organisational performance and the mediating roles of teamwork cohesion, organisational learning and organisational innovation, in this relationship. It will examine each of these links separately and submit them as important mediating variables to explain the influence of transformational leadership on organisational performance. As such, the present study aims:

1. To examine the relationships between transformational leadership and teamwork cohesion; transformational leadership and organisational learning; transformational leadership and organisational innovation.
2. To examine the relationships between teamwork cohesion and organisational performance; organisational learning and organisational performance; organisational innovation and organisational performance.
3. To examine the mediating influence of teamwork cohesion, organisational learning and organisational innovation on transformational leadership and organisational performance.

1.5 Research Questions

Based on the above objectives, this study attempts to answer the following research questions:

1. What is the relationship between transformational leadership and teamwork cohesion?
2. What is the relationship between transformational leadership and organisational learning?
3. What is the relationship between transformational leadership and organisational innovation?
4. What is the relationship between teamwork cohesion and organisational performance?
5. What is the relationship between organisational learning and organisational performance?
6. What is the relationship between organisational innovation and organisational performance?
7. Does teamwork cohesion mediate the relationship between transformational leadership and organisational performance?
8. Does organisational learning mediate the relationship between transformational leadership and organisational performance?
9. Does organisational innovation mediate the relationship between transformational leadership and organisational performance?

1.6 Significance of the Study

1.6.1 Theoretical Significance

A broad variety of theories on leadership and leadership development have been developed over the past decades, aiming to explain the role of a leader in complex and changing environments (Dinh, Lord, Gardner, Meuser, Liden & Hu, 2014). However, even though a wide range of theory has been developed, Dinh et al., (2014) argued that there are still more unexplored challenges, and there is a gap to be filled in how to think about leaders for the next generation. Day et al., (2014) evaluated 25 years of leadership research and agree that the understanding of leadership that matches the environment today is still immature. Hence, this study seeks to understand how transformational leadership style is enhancing organisational performance through three mediator variables namely teamwork cohesion, organisational learning and organisational innovation.

Secondly, the business environment is characterised by increasing globalisation, fast-changing workplace dynamics, disruptive technologies and new competition entering markets (Magner, 2012; Caligiuri, 2006). Hence the leaders of today and tomorrow need to deliver in a world with far less continuity and higher uncertainty (Smith & Cockburn, 2014; Pardey, 2008). This generates new demands and challenges on leaders to create and sustain their organisations in highly competitive markets (Stahl, Björkman, Farndale, Morris, Paauwe, Stiles, Wright, 2012). MNCs view leadership development and talent management as a top priority (Stahl et al., 2012), as developing and keeping a sustainable pool of high potential leaders is the main way to gain competitive advantage (Stahl et al., 2012). The present study makes an important

contribution to literature in the areas of leadership, teamwork, organisational learning, organisational innovation and organisational performance.

Reviewing innovation literature shows the growth of interest among researchers to study innovation topic. This study addresses the gaps in the literature on the mediating factors between leadership and organisational performance, which is important to be examined (Boerner, Eisenbeiss, & Griesser, 2007; Latham, 2014; Wang et al., 2011; Zhu, Avolio, Riggio, & Sosik, 2011).

Thirdly, whereas most of the available literature focuses on the organisations in Western countries, the present study focuses on the impacts of transformational leadership style on organisational performance in Malaysian MNCs in the E&E sector. The results will add value to the existing literature in the area of leadership and organisational performance. Further, from the results of this study, the researcher expects that transformational leadership will lead to more innovative ideas and improve organisational performance.

Finally, this research contributes through the application of the resource-based theory (RBV), and resource advantage theory (R-A), which are one way of viewing organisational performance and its strategy (Samad & Abdullah, 2012). This notion suggests that the organisation accumulated resources and the way they are aligned and combined will help in creating a different in organisations as compared to others, which contribute a competitive advantage, and resulting in the high performance of the organisation. Samad (2013) reviewed Barney (1991) and classifies resources as all assets, capabilities (individual, group and corporate), organisational processes, organisation attributes, information, knowledge, management systems and any organisational related resources and aspects including human

capital (leadership and its followers). Further, an organisation can gain a sustainable competitive advantage by continuously developing existing and creating new resources and capabilities to face with rapidly changing market condition (Samad, 2013).

1.6.2 Practical Significance

Understanding the factors affecting the organisational performance of Malaysian MNCs in the E&E sector serves as a guide for management and employees to look at ways to increase or enhance their financial and non-financial organisational performance. In E&E organisation, it is crucial for the management to understand the factors influencing innovation (Van de Ven & Sun, 2011).

Managers will further understand organisational learning and how to be more innovative to maintain the competitive advantage of organisations (García-Morales et al., 2012). Also, leaders of the MNCs will be able to revisit the organisation's situation in the market and compare with the Tenth Malaysian Plan to become the leader of E&E products in the region. Also, it is hoped that the present research on transformational leadership, teamwork cohesion, organisational learning, organisational innovation and organisational performance will be a worthwhile study for future exploration. Hence, the present study can provide HR personnel with an actionable framework to plan for HR initiatives in developing the key human resources or senior leaders that suit their HR or organisational strategies.

1.7 Definition of Key Terms

1.7.1 Organisational Performance

This study covers the financial and non-financial aspects of organisational performance. Financial performance as proposed by Chandler and Hanks (1993) includes profitability, sales turnover, sales growth, return on investment, and market share. Moreover, non-financial performance developed by Hoque (2004) includes the satisfaction that includes customer satisfaction, customer retention, employee satisfaction, relationship with suppliers, and workplace industrial relations.

1.7.2 Transformational Leadership

Transformational leadership is the relationship between leaders and followers that promotes higher levels of motivation and morality (Burns, 1978). It has four dimensions: *Individualised Consideration*: where the leader listens to followers' needs and act's as a coach or mentor for the follower (Bass & Bass, 2008); *Intellectual Stimulation*: where the leader takes risk, challenges assumptions, and asks about followers' idea (Bass & Bass, 2008); *Inspirational Motivation*: where the leader creates a vision to attract and inspire followers (Bass & Bass, 2008); *Idealised Influence*: where the leader builds trust, respectful relation, and high level of ethical behaviour (Bass & Bass, 2008).

1.7.3 Teamwork Cohesion

Teamwork cohesion is defined as the understanding team spirit in an organisation that members are willing to help each other (Lloréns-Montes et al., 2005).

1.7.4 Organisational Learning

Organisational learning is the capability of the organisation to improve or sustain performance based on experience (García-Morales et al., 2008a).

1.7.5 Organisational Innovation

Organisational innovation is the act of creating a new process or product by the invention as well as work that converts an idea to the final form (García-Morales et al., 2012).

1.8 Organisation of Remaining Chapter

This thesis comprises five chapters. Chapter 1 presents the background of the study, problem statement, research objectives and questions, significance of the study and definition of key terms. Chapter 2 is devoted to a literature review on transformational leadership, teamwork cohesion, organisational learning, organisational innovation, and organisation performance. Important concepts are synthesised and clarified. Following that, gaps in the previous studies are identified, and a theoretical framework and hypotheses are developed.

Chapter 3 provides details of the research methodology including research design, units of analysis, sampling techniques, instrument, measurements, and analyses. Chapter 4 presents the findings of the present study based on SmartPLS. Lastly, Chapter 5 discusses the findings and concludes the study while identifying the limitations and suggesting avenues for future research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The present study investigates the relationships between transformational leadership and teamwork cohesion, organisational learning, and organisational innovation and their relationships with the organisational performance of MNCs in the Malaysian E&E industry. This chapter reviews the literature on organisational performance, transformational leadership, teamwork cohesion, organisational learning and organisational innovation. The relationships among these variables are discussed and gaps in the literature identified. The chapter ends with the theoretical framework of the study and the development of hypotheses.

2.2 Organisational Performance

Organisational performance was defined by Prieto and Revilla (2006) as a multidimensional, and complex concept included both qualitative and quantitative factors. In this regard, Espinosa and Porter (2011) argued that the definition of organisational performance is dependent on various perspectives. Customers look at the high-quality product and services, reasonable prices, and fast distribution. Regulators consider the compliance with rules, openness and honesty. Investors look at high dividend levels, high returns on capital, and a high confidence in the skills of the organisation leader. Stakeholders, consider different criteria when evaluating organisational performance. Employees look at the caring, worthy reward packages, admiration and respectful

behaviour. Finally, suppliers look at the growths in sales, continuing business, and performance feedback (Espinosa & Porter, 2011).

Neely (2002) introduced two views of organisational performance: stakeholders and shareholders. The stakeholder view tries to embrace all of the stakeholders' interests namely those of suppliers, regulators, customers, intermediaries, communities, investors, and, employees (Neely, 2002). The shareholder view emphasises on improving the internal operations of a corporation for the sole profit of its shareholders (Neely, 2002). In this view, organisational financial performance is measured based on profit growth, sales growth, return on assets, and return on equity (Neely, 2002).

Chen and Barnes (2006) define organisational performance as the process that converts inputs to outputs to achieve the expected outcome. With this regard, performance is about the relationship between minimal and effective cost (economy), the relation between effective cost and realised output (efficiency), and the relation between output and achieved expected outcome (effectiveness). Sengupta and Sengupta (2015) explained organisational performance increases the capability of an organisation to reach goals as large market share, high profit, quality product, survival at a pre-determined time, and respectable financial outcomes, and using the applicable plan for achievement.

Organisational performance is also viewed regarding level of profit, market share and product quality compared to other competitors in the same industry. It is a reflection of the output of members of an organisation measured regarding improvement, growth, income, profit and development of the organisation. In the present study, organisational performance is measured as a combination of financial and non-financial performance as it offers a more

appropriate measure of overall organisational performance (Amir, Auzair, & Ismail, 2014; Lämsiluoto, Agbejule, & Kataja, 2013; Zuriekat, Salameh, & Alrawashdeh, 2011).

Boz, Yiğit, and Anil (2013) measured the economic perspective of organisational performance using return on assets (ROA). This ROA measurement, by definition, reflects a firm's relative efficiency in the utilisation of its assets. It is particularly appropriate for strategy-structure fit research because the concept of fit argues for increased efficiency. Other studies have measured organisational performance by overall success, market share, growth rate, profitability, and innovativeness compared with key competitors (Smirnova, Naudé, Henneberg, Mouzas, & Kouchtch; 2011). In a similar study of MNCs in Denmark, Grünbaum and Stenger (2013) measured organisational performance with the same items.

2.3 Leadership

Leadership has been studied extensively and is a popular topic in organisational behaviours and management. The past 30 years of research on leadership researchers has reviewed gender, leader, cross culture, followers, performance in the transformational leadership (Chatbury, Beaty, & Kriek, 2011). Robbins (2003) argued that leading is to motivate employees, guiding, chooses the most effective communication method, and solving problems. Leadership is not easy to be identified because "it does not exist in a vacuum" (Raes, Decuyper, Lismont, Van den Bossche, Kyndt, Demeyere, & Dochy, 2013). Balyer (2012) mentioned that the meaning of leadership is still murky, and the current status depends on modern and Western values. Zhang (2011) mentioned that there are more than 350 definitions of leadership. Formal or informal leadership is the skill to influence people to achieve objectives (Robbins & O'Gorman, 2012). Scholars

tried to find a conclusive definition for leadership but were not able to finalise a universal definition. Leithwood and Sun (2012) argued that leadership has been identified with many characteristics that are not unified. Further, Jiang, Gu, and Wang (2015) suggest that leadership is a vital part of human survival, which is an unclear attempt to define leadership.

2.4 Review of Leadership Theories

Researchers have identified four main categories of leadership theory as follows: trait theory, behavioural leadership theory, contingency leadership theory, and integrative leadership theory (Lussier & Achua, 2013). Daft (2008) stipulated seven main theories of leadership specifically:

a) Great man theories (the 1990s to 1950s). It pursues to recognise the traits that leaders possess their greatness to show that they are different from people who are not leaders.

b) Traits theories (1940). It differentiates personality traits or personal characteristics of a leader (Yukl, 2011). The best common traits of leadership are extraversion, reliability and honesty, intelligence drive, self-confidence, appropriate knowledge, and aspiration to lead (Yukl, 2011).

c) Behavioural theories (1940 and 1950). This theory suggests anyone can be a good leader if he/she has the proper behaviour. This theory includes laissez-faire style, Autocratic style, and Democratic style of University of Iowa's by Lewin, Lippitt, and White (1939).

d) Individualised leadership (1960). This theory emphasises on the leader and follower relation known as a dyad which focuses on the exchange relationship between leader and follower (Antonakis, Cianciolo, Sternberg, Bass, Bass, Bryman, & Jackson, 2011).

e) Contingency theories (the late 1950s). This theory examines the leadership styles based on the situations (Fiedler, 1964). It depends on conditions, task, and people and has been used widely in