

# DELEGATION AND COLLABORATION PRACTICES TO EMBRACE INNOVATIVE IDEAS FOR BUSINESS GROWTH IN SMALL TO MEDIUM ENTERPRISES

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## ABSTRACT

*With increasing global competitiveness and sustainability challenges, Small to Mediums Enterprises (SMEs) are under on-going pressure to innovate and develop effective strategies to engage their employees for enhanced productivity and growth. Further, the local decision makers in a country-wide environment consider SMEs as critical success factors for future economic growth and job creation. This study presents analysis of the SEMs reaction to these external and internal factors, in particular, how to promote new business ideas through enhancement of employees' engagement by increased delegation of authorities to subordinates and by encouraging employees to share information within the firm. Delegation for decision making helps to increase employees' commitment and the internal competitiveness between rivals to drive business growth. While internal collaboration enhances communications between employees to share ideas which in turns provide tangible additives to the business processes that further enhances growth.*

*The study starts by developing a conceptual model that associate the internal delegation and collaboration with new business ideas and with business growth. The relevant hypotheses are developed, and the models are analysed and tested using standardized mediation procedures via SPSS statistical package. The mediation effect of delegation and collaboration on the relationship between SMEs' strategies to embrace new business ideas and the business growth are studied. The results showed that delegation has more positive impact on the business growth compared with only ideas sharing and internal collaboration. However, although to different extents, both the delegation of authorities and the encouragement of employees to collaborate by sharing new ideas participate in enhancing business growth. These findings are discussed considering required support for policy makers to develop awareness channels for SMEs to incorporate delegation and internal collaboration as integral components of their strategic planning.*

**Keywords:** Delegation, Collaboration, Small to Medium Enterprises, Growth.

## INTRODUCTION

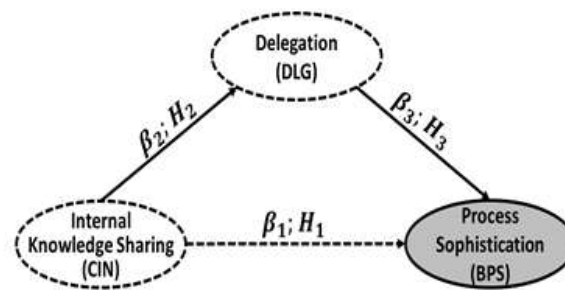
The roles played by effective engagement of employees in supporting and sustaining the organizational performance is well documented in the literature and found to be consistent across different industries (Riordan et al., 2005; Guthrie, 2001; Nielsen & Pedersen, 2003; Glaveli & Karassavidou, 2011; Castellanos & Martin, 2011; Qi et al., 2016). Active involvement of employees is particularly important in modern businesses and market environments due to the globalization and business environmental volatilities (Riordan et al., 2005), which require rapid responsiveness. Due to such interdependency between employee's involvement and business performance led many organizations to invest in organizational governance and control (Barrett

& O'Connell, 2001; Sung & Choi, 2014). In current knowledge-based economy, businesses have long realized the critical roles played by employees to achieve competitive advantage, which can be achieved by adoption of effective knowledge managed practice. Therefore, to take full advantage of the accumulated organizational knowledge, it must be shared between all employees (Alavi & Leidner, 2001; Wang & Wang, 2012). Such knowledge sharing help organizations to improve their performance through adoption of lean practices by reducing operational costs, improving project management practice, shorter production life-cycles and enhance innovative capabilities (Lin, 2007; Mesmer-Magnus & DeChurch, 2009). Another aspect that influence performance is the ability of senior management to delegate tasks to subordinates (Jha, 2004; Drescher, 2017), particularly as the managers responsibilities increases and production expectation surges (Atwater et al., 2004). This delegation found to have positive and direct influence on business performance (Chen & Aryee., 2007). In addition to business performance as common factor, both knowledge sharing and delegation are also related to the organizational leadership and the leader-employee relationships (Xiao et al., 2017; Mittal & Dhar, 2015; Johnson et al., 2008; Giessner et al., 2009), which again positively impacts business performance (Walumbwa et al., 2011).

This study aims to investigate the effect of delegation as a mediator between the adoption of effective internal knowledge sharing practice and the firm's performance improvement in terms of adoption of sophisticated business processes to manage business operations. Within this context, two independent variables are selected to study their impact on business innovation improvement are: internal knowledge sharing and delegation of tasks to subordinates. The principles for such section are because these two variables are linked and influence each other with casual structure (Wu & Lee 2017; Jha 2004), where employee involvement in knowledge sharing will lead to innovation (Chen & Huang, 2009; Lau & Ngo, 2004) and their delegation also contribute to business development and growth (Castellanos & Martin, 2011). For the innovation aspect of this study, innovation is defined as the ability of firms to use existing knowledge and delegation practices to develop and implement sophisticated business processes to manage operations (Sung & Choi, 2014). These management concepts outline the conceptual model for the study which is presented and tested below.

## **Conceptual Model**

In order to model the research problem of the study, a literature review was conducted to develop the conceptual model shown in Figure 1. The model shows the relationship between two independent variables, namely the 'Internal Knowledge Sharing (CIN)' and 'Delegation to Subordinates (DLG)' on the dependent variable 'Business Process Sophistication (BPS)'. The literature supports the principles used in developing this model. Research showed the presence of direct and positive relationship between the knowledge sharing the delegation processes within firms in different industries (Jha, 2004).



**Figure 1.** Schematic diagram on the mediation role played by 'Delegation to Subordinates' on the relationship between 'Internal Knowledge Sharing' and the 'Business Process Sophistication'.  $\beta$ 's are the loads and  $H$ 's are the research hypotheses.

## FIGURE 1 CONCEPTUAL MODEL

Further, from the performance expectation perspective, the internal and external environment of the SME firms do impact the level of delegation adoption (Moers, 2006; Banford et al., 2014). Within these contexts, the delegation practice followed by a firm can be considered as causal results of adopting effective internal knowledge management and sharing practices. Delegation is also considered as good practice to promote business performance and growth through effective utilization of human resources (Charness et al., 2012). However, it should be noted that delegation is not always effective or a first choice by firms, the selection will depend on the relative operational complexity and associated risks. For example, delegation has negative effect on operations and growth when dealing with tasks at the customer interface (Chowdhury, 2011). Brief descriptions of the variables used in the model are introduced in the following sections. The questions used to gather the relevant data are developed and used by the world economic forum in their production of the global competitiveness report ([www.weforum.org](http://www.weforum.org)).

### **Business Process Sophistication (BPS)**

The business process sophistication (BPS) is the dependent and used to assess the extent to which companies implement some form of development initiatives in order to improve the sophistication level of the adopted production processes. The survey question used to capture this information reads: In your country, how sophisticated are production processes? A seven-point Likert scale is used by the respondent to answer this question, with 1 indicate "*Not at all-production uses labor-intensive processes*" and 7 to indicate "*Highly-production uses latest technologies*".

One driver for using this variable is based on considering the business innovation in terms of the adoption of some process improvement and sophistication practices for improving business performance (Becheikh et al., 2006; Razavi et al., 2012; Kafaji, 2017; Kafaji, 2019). In other words, the degree of process sophistication used by a firm can be a proxy indicator on the degree of implementing technology innovation to improve the business operations.

## Knowledge Sharing (CIN)

Knowledge management in general has gained much attention in the literature due to its critical role in managing and sustaining business development in a highly competitive world (Hung et al., 2010). In managing knowledge, the firm's employees are considered as the necessary instrument for implementing an effective knowledge management practice (Dyer & Nobeoka, 2000). Therefore, this study uses the below question to capture this aspect of the participating firms: In your country, to what extent do people collaborate and share ideas within a company? A seven-point Likert scale is used by the respondent to answer this question, with 1 indicate "Not at all" and 7 to indicate "To a great extent".

In the published literature, knowledge sharing is considered as an effective driver for improving the business operations through promotion of innovation and creativity (Cho & Pucik, 2005; Massingham & Massingham, 2014; Crhova & Matoskova, 2019). Therefore, the adopted level and the model used for knowledge sharing influence the observed macro scale performance changes in businesses. Linking employees and business performance leads to the postulation of the following hypotheses:

*H1: Internal knowledge sharing has positive impact on the level of deployed business process sophistication.*

*H2: Internal knowledge sharing has positive impact on the adopted level of delegation to subordinates.*

## Delegation (DLG)

In this study, delegation refers to the extent that senior managers are willing to assign authorities to subordinates to perform specific tasks with empowerment to access required corporate resources. The main drive of such practice is to facilitate decision making by the subordinates (Akinfolarin, 2017). In this respect, delegation can be considered to constitute an important part of the leadership model adopted by the firms (Sengul et al., 2012). In contrast, the higher the delegation is practiced in a firm the less that firm is practicing micromanagement (White, 2010). Data used in this study was gathered using: In your country, to what extent does senior management delegate authority to subordinates? A seven-point Likert scale is used by the respondent to answer this question, with 1 indicate "Not at all" and 7 to indicate "To a great extent".

The associated hypothesis to be tested is:

*H3: Delegation of tasks to subordinates has positive impact on the level of adopted business process sophistication.*

## METHODOLOGY

The current study uses a one-year data collected from 120 firms in different sectors and different cities to assess the firms' approach and practice in delegating tasks to subordinates and the degree of the firm's growth in terms of sophistication of the adopted business processes. In addition, the firms' size, sector, and locations are captured to evaluate their influence, if any, on the regression relationships between the dependent and independent variables. The size of the firms is classified in terms of the number of employees. Two classifications is used: (a) small firms defined as those firms with employees of equal or less than 250 and (b) large firms are those with employees greater than 250. The industries of the firms are classified into two main

industries: (a) services to represent firms in consultancies, education, support, logistics, and other similar support services and (b) manufacturing to include firms involved in variety of manufacturing productions. The number of firms filtered from the gathered data of this study is 78. For the data analysis, the SPSS standard statistical package version 26.0 is used to perform hierarchical multiple regression analysis. This analysis adopted to examine the interdependent relationships between the research selected variables. Specifically, whether the delegation of tasks to subordinates (DLG) mediate the relationship between the internal collaboration of knowledge sharing within the company (CIN) and the business process sophistication (BPS) adopted by the firm.

## DISCUSSION AND ANALYSIS

The analysis and assessment of the research problem of this study was performed using the hierarchical multiple regression approach. In order to assess mediation, specific conditions must be satisfied first (Baron & Kenny, 1986; Frazier et al., 2004). These conditions state that the dependent variable BPS should be predictable by CIN, by DLG, and by both the CIN and DLG. These conditions were pre-tested and were found to be satisfied. The results of the subsequent analysis are shown in Figure 2. The Figure 2 confirms that the independent variable CIN can significantly predict the dependent variable BPS, while the causal variable DLG and the independent variable CIN are both significantly correlate and predict the dependent variable BPS. This shows that the dependent variable is predictable by the combined effect of both independent and the mediating variables.

|                                                                                                    | BPS     | CIN         | DLG  |
|----------------------------------------------------------------------------------------------------|---------|-------------|------|
| <b>Basic descriptive statistics</b>                                                                |         |             |      |
| Mean                                                                                               | 4.72    | 4.39        | 4.82 |
| Standard Deviation                                                                                 | 1.26    | 1.42        | 1.24 |
| N                                                                                                  | 78      | 78          | 78   |
| <b>Correlations without mediator</b>                                                               |         |             |      |
| Business Process Sophistication                                                                    | 1.0     |             |      |
| Internal knowledge sharing                                                                         | 0.45*** | 1.0         |      |
| Delegation to subordinates                                                                         | 0.46*** | 0.28**      | 1.0  |
| <b>Correlations with mediator added (values in parentheses represent the confidence intervals)</b> |         |             |      |
| Internal knowledge sharing                                                                         | 0.34*** | (0.13,0.48) |      |
| Delegation to subordinates                                                                         | 0.37*** | (0.17,0.58) |      |
| Total indirect effect through DLG                                                                  | 0.13*   | (0.03,0.22) |      |

**FIGURE 2**  
**CORRELATIONS BETWEEN THE STUDY VARIABLES WITHOUT MEDIATION EFFECT AND AFTER ADDING THE MEDIATOR FOR PREDICTING THE BUSINESS PROCESS SOPHISTICATION**

As the focus of this study is the role played by delegation on firm's growth, the study assessed different regression models and the impact of the independent variables on these models. Based on previous studies, the firm's internal communication and the knowledge exchange practices support greater firms' growth (Collins and Smith 2006). Therefore this study control for the firm's internal communications with effect from the adopted delegation practice to enhance growth. Further the literature also showed that power sharing with subordinates has

major contribution to the task performance (Li & Qi, 2015). In analysing the mediation effect of the delegation to subordinates, there are generally three possibilities: no mediation, partial mediation, or full mediation. The classifications between these mediations depend on the effect introduced by adding the mediation (DLG in this case) on the strength and significance level of the direct relationship between the knowledge sharing and the firms' performance (Baron & Kenny, 1986). The results presented in Figure 1 indicated that delegation to subordinates take a partially mediate role since the indirect effect through delegation is significant and the direct effect between CIN and BPS is reduced but still significant. Specifically the indirect effect between CIN and BPS through the mediator DLG is  $(0.28) \times (0.46) = 0.13$ , and applied bootstrapping procedure showed that this indirect effect is significant with 95% confidence interval ranged from 0.03 to 0.22.

These results suggest that while sharing ideas and knowledge between employees of the same firm contribute positively to the business development of the firm, the delegation further support the business development. These results are consistent with the findings of the literature (Collins & Smith, 2006; Li & Qi, 2015). Further the propensity of managers to delegate tasks to subordinates is considered as an important leadership characteristics (House et al. 2004), but it also highly dependent on cultures (Pellegrini & Scandura, 2006; Banford et al., 2014). Based on this study, the sampled firms in Saudi Arabia within the local cultural context seem to enhance delegation practice to subordinates rather than oppose it. With these results, the three hypothesis stated earlier are satisfied and are not rejected.

## CONCLUSIONS

With growing business competitiveness and continuous needs for efforts to achieve lean working business environment to optimized operations, business managers consider multiple critical success factors to achieve their strategic goals. This study focused on the roles played by two selected independent variables: the knowledge sharing within the firm and the delegating subordinates to perform specific decisions using available resources. The knowledge and idea sharing within the companies was found to have positive impact on the business performance, which in turn is used to assess the benefits of business investment in knowledge management practices. In the context of Saudi Arabia, the local culture seems to play minor role to oppose utilization of delegation as a driver to improve the business sophistication and to ultimately improve the business performance. Moving to new business era, both managers and the subordinates need to understand each other for developing a mutually productive work environment and to stay competitive. Specifically, the firms are required to engage their employees at all levels in dedicated training programs on practical approaches to incorporate delegation strategies in their management style. In addition to the gained business improvement, such programs will participate in maturing the local knowledge sharing and collaboration culture. This study further emphasize that such organizational investments in training and knowledge sharing will business benefits through improved business operations and performance.

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