

Impact of Leadership Styles on Knowledge Management Practices in Small and Medium Enterprises of Punjab (Pakistan)

Yasir Aftab Farooqi

Faculty of Management and Administrative Sciences (FMAS)
Assistant Professor, University of Gujrat, Pakistan

Rabail Gohar

Department of Business Administration, Ms Scholar, NCBA&E Gujrat, Pakistan

Ayesha Nazish

Faculty of Management and Administrative Sciences (FMAS)
Lecturer, University of Gujrat, Pakistan

Muhammad Ahmad

Faculty of Management and Administrative Sciences (FMAS)
PhD. Scholar, University of Gujrat, Pakistan

Abstract

Purpose: Aim of this paper is to explore the role of leadership styles (transformational and transactional leadership) on knowledge management practices of small and medium enterprise in Pakistan.

Design/Methodology/Approach– Data was collected via structured questionnaire. Total 400 questionnaires were distributed randomly among employees of SME sector in Pakistan. Regression analysis was used to test the hypothesis.

Findings– Findings supported that transformational and transactional leadership styles have significant effect on knowledge management practices (socialization, externalization, combination and internalization) of small and medium enterprise in Pakistan.

Practical Implications– This study provide insight about the knowledge management that which leadership style is preferable in order to enhance the knowledge management practices of organization.

Originality/Value– There are few studies which clarify a link between leadership and knowledge management in context of SME sector of Pakistan. So this study adds insights into the literature by exploring the effects of transformational and transactional leadership styles on knowledge management practices especially in SME of Pakistan.

Keywords: Transformational leadership style, Transactional leadership style, Knowledge management practices, SME, Pakistan

Paper Type: Research paper

Introduction

This paper explores the relationship between leadership styles (transformational & transactional) and knowledge management practices within SMEs of Pakistan. As knowledge management is a newly emerging area to be considered important in today's business environment, so this study undertaken knowledge management as key area to be studied in context of leadership styles. Leaders are the main driver of knowledge management practices in an organization who creates an environment of knowledge sharing by incorporating their own knowledge in an organizations pool of knowledge (DeLong & Fahey, 2000). Also, transformational leaders exercise influence on their employee's view about benefits of human capital, as well as, take advantage of these benefits through involving them in the KM process, encouraging communication among employees, and creating organizational culture (Goudarzvandchigin, 2011). So, we can say that leadership is required in order to motivate employees to participate in KM practices in an organization. KM is basically documented as an important weapon for supporting the competitive advantage of an organization as well as improves its performance (Zaied, et al., 2012). SMEs of Pakistan were chosen to be studied for this study, because today's success of business depends heavily on its intellectual capital rather than it physical capital and thats why knowledge management plays a critical role for the growth of SMEs (Chandak, 2006). And, also it was noted by McAdam & Reid (2001) that SME sector was less developed with mechanistic approach to knowledge, as well as lacks the investment in knowledge management approaches and systems. There is no standard or universally acceptable definition of SME. SMEDA defined SME as, "an enterprise consisting of employees up to 250, having paid-up capital up to Rs. 25 Million" (Policy, 2007). Whereas, State Bank of Pakistan defined SME (according to SME Prudential Regulations) as, "an entity which is not a public limited company, employing not more than 250 employees in manufacturing sector, and 50 persons in service or trade sector. Moreover, it should fulfill one of the following

criteria: (a) A trade / services concern with total assets at cost excluding land and buildings up to Rs 50 million. (b) A manufacturing concern with total assets at cost excluding land and building up to Rs 100 million. (c) Any concern (trade, services or manufacturing) with net sales not exceeding Rs 300 million as per latest financial statements” (SBP, 2010).

Problem Statement

Investigation about Knowledge of individuals and organizations, as well as, how leadership may contribute in sustaining the competitive advantage of SMEs of Pakistan through managing knowledge activities is a major challenge. As it was identified that the key challenge for knowledge-intensive small and medium enterprises are the identification, capture, storing, mapping, dissemination and creation of knowledge from different perspectives and for different purposes. Then the question arise, how leadership plays its role in mitigating this challenge of knowledge management, specifically in SMEs of Pakistan. So the problem statement for the study under consideration is as follows: “What is the impact of leadership styles (transformational & transactional) on KM practices in SMEs of Pakistan?”

Objectives

The key objectives of this study include following:

- Exploring the relationship between transformational leadership and Knowledge Management Practices, and
- Exploring the relationship between transactional leadership and Knowledge Management Practices

Literature Review

According to Business Dictionary, leadership is defines as “an activity of leading an organization or a group of people”. According to Barnard (1983) leadership is “the ability of a superior to influence the behavior of a subordinate or group and persuade them to follow a particular course of action”. Leadership is also defined as “a process whereby one individual influences a group of individuals to achieve a common goal” (Northouse, 2001). Burns (1990) identified two styles of leadership i.e. transactional and transformational according to the state of organization. According to Dubrin (2008) transformational leadership focuses on what the leader accomplishes rather than on the leader’s personal characteristics and his or her relationship with the group members. Transformational leadership is also defined as a process that transforms individual’s behaviors i.e. it is the ability of a leader to inspire people to be changed and to be led by him (Northouse, 2001). Transformational leadership theory basically focuses on change and the role of leadership in this situation is envisioning and implementing the change and transformation of organizational performance (Bolden, et al., 2003). Whereas the transactional Theory basically emphasize on the importance of the relationship between a leader and his followers, focusing on the benefits of both parties which are derived from a form of 'contract' between them, through which the leader gives rewards or recognition in return for the loyalty or commitment of its followers. (Bolden, et al., 2003). The basic focus of transactional leadership is on more routine transactions rewarding group members for meeting standards (Dubrin, 2008). Transactional leadership is also called as managerial leadership which focuses on the role of organization, its supervision and on group performance (Cherry, 2013). Transformational leader encompasses four behaviors i.e. charisma, inspiration, intellectual stimulation and individualized consideration whereas, the transactional leadership also encompasses four kinds of behaviors i.e. contingent reward, active and passive management by exception (active) and laissez-faire (Bass, 1990). Knowledge management is defines as an “efficient management of the knowledge assets of an organization in order to create value; KM basically consists of the processes, initiatives, systems and strategies that maintain and increase the storage, appraisal, sharing, improvement, and creation of the knowledge. (KMT, 2010). Knowledge management is basically about “bringing the right knowledge to the right person at the right time” and it also requires experienced & competent leadership at all levels (KMT, 2010). According to Wiig (1999), the founder of KM, defined it as “ the systematic and explicit management of knowledge-related activities, practices, programs, and policies with in an organization”. According to Nonaka (1994) Km process consists of four dimension i.e. internalization, externalization, socialization and combination. This model defines that knowledge is a continual interplay of the tacit and explicit knowledge dimensions. According to Crawford (2005), transformational leadership style is a strong predictor of knowledge management while the transactional behavior is related to KM only to some extent. Research findings suggest that transactional and transformational leadership styles have positive association with knowledge management practices (Nguyen, 2009). The findings of research by Tombul (2011) also support the relationship between knowledge sharing (1st generation of KM) and perceived transactional and transformational leadership behaviors of the supervisors. But the knowledge sharing activities are not influenced by another leadership style i.e. laissez-fair. It is also suggested that leadership styles has strong effect on employee’s ability to share their knowledge (Huang, et al., 2010). According to research result of Lin & Lee (2004) norms, attitudes, encouraging intentions and percieved behavioural control of senior managers encourage employees knowledge sharing. Another study found that when key knowledge managers of an organisations adopts the transactional and transformational leadership styles, then there is a significant increase in knowledge

management activities (Analoui, et al., 2013). Therefore it is expected that:

H1: Transformational leadership styles are positively related with knowledge management practices in an organization.

H2: Transactional leadership styles are positively related with knowledge management practices in an organization.

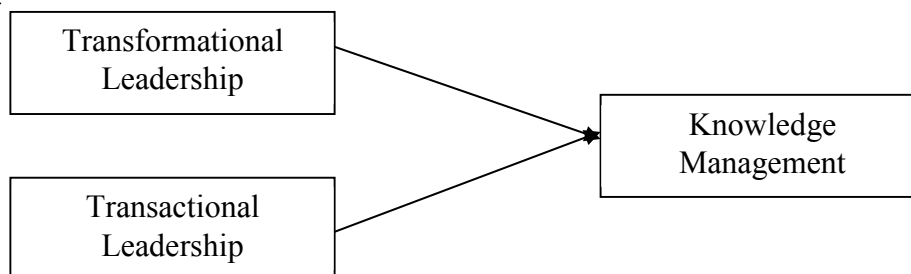


Figure I: Proposed Research model

Methodology

Sample and sampling Method

According to Zikmund (2003) sampling is “The process of using a small number of items or parts of a larger population to make conclusions about the whole population”. A sampling element which is defined as “a unit of analysis” is company or organization (having characteristics of SME) for this study. An investigation on SME of Pakistan reveal that there are around 2 million SME’s in Pakistan, including 400,000 Manufacturing units, 600,000 Service sector units and 1 million Trade sector (retailers) units (SME, 2004). While according to nother research there are approximately 2.96 million SMEs working in Pakistan (Punjab 65.26%, Sindh 17.82%, KPK 14.21% and Baluchistan 2.09%) (Jawahar, 2012). SME sector of Pakistan is divided into 14 sectors according to nature of business by State Bank of Pakistan. These sectors are: Rice Husking, Power Looms, Cotton Ginning, Dairy & Livestock, Surgical Instruments, Cutlery & Stainless Utensils, Marble & Granite, Fisheries, Engineering Goods, (Electronic), Packaging / Vegetables / Processing of Fruits, Furniture, Sports Goods, Gems & Jewellery, and Agro-based Industry. The sample size is determined by using the formula given by Tarogamni (1967): $n = \frac{N}{1 + Ne^2}$, where n = sample size, N = Population, e = margin of error. As the targeted population for this study is from punjab, so the sample size for this study is 400. The sector of SME mentioned above were treated as stratas, and 400 questionnaires were distributed among those randomly. Only 327 questionnaires were completed and returned out of which 302 were usable yeilding the response rate of 75.5 percent.

Measures

The questionnaire was used as a data collection method which contains information regarding following measures.

- Background information
- Leadership styles adapted from Multifactor Leadership Questionnaire (MLQ- 5X Short Form) (Bass & Avolio, 1997)
- Knowledge Management Process adapted from the work of (Sabherwal & Becerra-Fernandez, 2003)

Data Analysis

Statistical Techniques

The multivariate statistics was used to analyze the data, which was collected through questionnaire. Descriptive statistics (means, frequency etc) was used to gain insight about data. That is, value of mean tell about perception’s of respondents regarding each variable included in survey. Following the descriptive statistics, “Cronbach alpha” was used to check the reliability of the instrument used for the survey, as well as, validity of instrument was checked by employing confirmatory factor analysis (CFA). Then After checking reliability and validity of the instrument, linear regression analysis was used to test the dependency relationship among hypotheses.

Descriptive Analysis

The average number of people in SME was 86; minimum number of employees was 4; while maximum number of employees was 250 from where data was collected. Out of 302 employees employed in SME 211 (69.7 percent) were male while rests of the employees were female. Seventy seven respondents had Matric degree (25.3 percent), thirty respondents (10.1 percent) had Inter degrees, one hundred and fifteen respondents (38.4 percent) had Bachelor’s degrees and 80 respondents had Master’s degrees (26.3 percent). Whereas, from all the respondents 88 employees (29.3 percent) were from senior management; 100 (33.3 percent) were from middle management and 113 respondents (37.4 percent) were from line management.

Reliability Analysis

Reliability of the data was checked through Cronbach’s Alpha both at individual level as well as for the overall questionnaire. The value of Cronbach's Alpha for transformational leadership style was 0.834, for transactional leadership style was 0.71 and for knowledge management practices, it was found to be 0.810. Data of all variables was found reliable and considered significant to carry out further analysis. The value of “Cronbach’s Alpha” for full questionnaire was found to be 0.984 which was very significant to carry out further analysis.

Table I: Cronbach’s Alpha

Dimension	Cronbach’s Alpha	N of Items
Transformational	0.834	9
Transactional	0.71	5
KM Practices	0.810	10
Overall	0.984	24

Validity Analysis

To check the validity of the instrument confirmatory factor analysis was used. For this purpose, transformational leadership style was tested with 9 items for confirmation; transactional leadership style was tested with 5 items for confirmation and Knowledge management Practices factor was tested with 10 items for confirmation. P-values of all the items were significant so we can say that all the items of that factor were confirmed. To measure the goodness of fit four criteria were used. Results of these measures were presented for each factor in the following table in a summarized form:

Table II:

Measure of Goodness of Fit							
	X ²	d.f	P-value	X ² /d.f	GFI	AGFI	RMSEA
CFA Model (Transformational)	32.13	27	0.000	1.190	0.930	0.883	0.048
CFA Model (Transactional)	15.00	5	0.001	3.00	0.940	0.819	0.148
CFA Model (KMP)	48.06	35	0.000	1.37	0.921	0.876	0.046
Recommended				≤3	≥0.9	≥0.9	≤0.08

CFA Results

Note: X²= Chi-square, d.f= degree of Freedom, GFI=Goodness of Fit Index, AGFI= Adjusted Goodness of Fit Index, RMSEA= Root Mean Square Error Approximation

The above table show that criteria of x²/d.f, GFI and AGFI is met for all the three factors whereas criteria of RMSEA is met for transformational leadership style and knowledge management practices only. It is not within the recommended limits for transactional leadership style. But according to Hair, et al., (2009) if only one criteria of goodness of fit is met i.e. value is according to the recommended values then factor is confirmed. So all the factors of this study are confirmed and prove that instrument used for the study was valid. Hence, this instrument can be used to carry out further analysis.

Results:

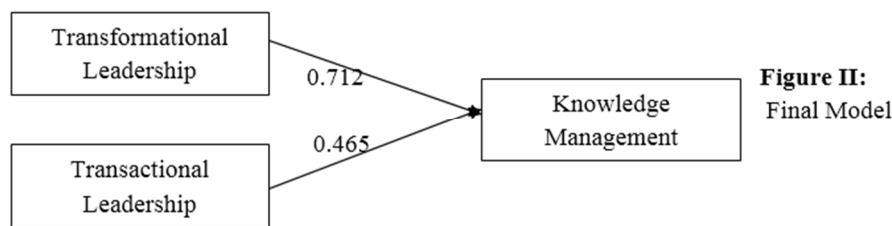
Regression analysis was used to test the hypothesis. Summary of the results is given in the following table:

Table III: Results Summary

Hypothesis	DV	IV	Beta	Significance	R ²	Results
H1	KMP	TR	0.712	0.000	0.612	Supported
H2	KMP	TS	0.465	0.000	0.594	Supported

Note: KMP= Knowledge Management Practices, TR= Transformational leadership Style, Ts=Transactional Leadership Style.

H1 for this study states that transformational leadership style is positively related with knowledge management practices in an organization. H1 is supported as p-value is 0.000 and the R² value indicates that transformational leadership style is causing 61 % change in knowledge management practices (i.e. socialization, externalization, combination and internalization). The value of β coefficient for transformational leadership style i.e. 0.712 indicate a positive relationship with knowledge management practices. And the value of beta for transformational leadership style also shows that 0.712 unit impact of transformational leadership style on knowledge management practices is due to the single unit change in transformational leadership style. This study also supports H2 which stated that transactional leadership style is positively related with knowledge management practices in an organization. P-value for H2 is 0.000 and R² value indicates that 59.4% variation in knowledge management practices is being explained by transactional leadership style. The value of β coefficient for transactional leadership style is 0.465 indicating positive relationship. And the value of beta for transactional leadership style also shows that 0.465 unit impact of transactional leadership style on knowledge management practices is due to the single unit change in transactional leadership style. Hence, the final model of this research is given below:



Discussion

The results of this study proposed that a knowledge management practice in an organization is a function of several different leadership styles. The focus of this study is on transformational and transactional leadership in SME of Pakistan and findings support that transformational and transactional leadership appear to have a highly significant relationship with knowledge management practices (i.e. socialization, externalization, combination and internalization) in an organization. These findings are consistent with the findings of Nguyen (2009) and Analoui, et al. (2013) who stated that transactional and transformational leadership styles bring significant increase in knowledge management practices of organizations. Also, consistent to the findings of Crawford (2005) this study also supports that transformational leadership style is a stronger predictor of knowledge management than transactional behavior. This study is significant because it offers insight about the role of leadership styles into KM practices. The results of this study are also important for managers, as they provide insight to leaders and managers about the management of knowledge in SMEs. Moreover, leaders come to know that how and which leadership characteristics and behaviors promote knowledge creation and sharing in organization. So by knowing this, they can use one of these leadership styles in order to integrate knowledge activities with work. Some of the limitations also withstand in this study. First is its limited generalization because this research target area is only one province (i.e. Punjab) of Pakistan. So this study can be conducted in future by taking larger sample under consideration. Also it is conducted at one point in time. This cross sectional design of survey may not yield some of the aspects of knowledge management practices in organization which can be seen in the studies more than one point in time. So, longitudinal studies can be conducted to see the long term effect of leadership styles on knowledge management practices of an organization. To conclude, this research is important in context of knowledge management, as in today's environment it is essential for every organization to manage its knowledge. And for doing this they can train their leaders or managers to adopt transformational leadership style or transactional leadership style in order to be competitive.

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