

Strategic Orientation and Innovation: Does  
Leadership Matter?:  
An Examination of Multimedia Super  
Corridor (MSC) Malaysia-based SMEs

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## **Abstract**

The age of innovation has driven a lot of organizations to formulate strategies so that they become competitive when competing against their rivals. The ability or disability to do this affects greatly on the organizations long-term survival. Even though, several factors such as the organizations' size, employees, technological sophistication and finance are believed to play important roles in shaping the strategy, leadership especially among small and medium enterprises (SMEs) is argued to be a more powerful predictor of an organization's direction. The leader's style whether transformational, transactional or laissez-faire will have a profound impact on how an organization adapt to the changes in the organization's environment. The ability of the leader to select the best strategy suited to his or her style will enhance the innovativeness of the organization. Thus, it is very critical for leaders to understand their own leadership styles and make a proper adjustment so that it will ensure the competitiveness of their organization.

*Keywords: Innovation, Strategy, and Leadership,*

## **Introduction**

As innovation is said to be "the basis of all competitive advantage: the means by which organizations anticipate and fill customer needs, and the methods by which these organizations utilize the technology (Schumann *et al*, 1994, p. xi). The failure of these firms to become competitive or even grow can be attributed to their lack of innovativeness. The extant literature is at pains to point out that the ability to develop competences necessary to innovate effectively is one of the biggest challenges facing firms of all sizes and ages (McEvily *et al*, 2004). Hall and Vredenburg (2003, p. 61) contend that 'innovation strategies are often inadequate to accommodate the highly complex and uncertain nature of these new demands'.

The need to innovate successfully is assuming greater importance due to the increasingly rapid technological change and associated market instability as well as increasing demands from customers for new and better products (O'Regan & Ghobadian, 2006). This study will examine the relationship between leadership style and strategic orientation in determining the innovativeness of small medium enterprises (SMEs) operating within the Malaysia Multimedia Super Corridor (MSC)

Although many variables influence creativity and innovation in organizational settings, there is reason to suspect that leaders and their behavior represent a particularly powerful influence (Mumford *et al*, 2002). Empirical evidence has also shown leaders play an important role in innovation (Cummings & Oldham, 1997; Oldham & Cummings, 1996). At the same time, the ability of leaders and senior level managers to develop an appropriate strategy would also enhance their firms' performance and competitiveness (Che Ros *et al*, 2006; Papadakis, & Barwise, 2002). It has long been held that a firm's innovation effectiveness is moderated by its management's choice of goals, strategies for growth and competitive intensity (Engelland & Summey, 1999).

Previous studies have used either Miles and Snow (1978) strategy types or Porter's (1980; 1985) generic strategy when looking at the effect of the strategy selected and developed in organizations. Strategic orientation especially Miles and Snow typology, is useful because it defines the organization's dominant competitive posture (Engelland & Summey, 1999), and provides a synthesis of the cognitive, characteristics, values and behavior of its key strategists. Although the literature seems to point to the importance of leaders, it is rather surprising to find that there is actually a dearth of empirical research undertaken to study the impact leaders have on innovation (Mumford *et al*, 2002) and their role in developing the strategy of their firm (Zahra & Pearce 1990). This paper will seek to fill this gap with regard

to (1) the role of leaders in selecting and shaping strategy for their organization and (2) the impact of the strategy on the innovativeness of their organization.

## **Research Problem**

*“Since the Industrial Revolution, the growth of economies throughout the world has been driven largely by the pursuit of scientific understanding, the application of engineering solutions, and continual technological innovation” (National Academies 2005, p. 2–1).*

In seeking to follow this trend, the rapid growth of Malaysia is now being accompanied by a new effort to improve innovation within industry. This is the case of the more advanced countries of the region (European Trend Chart on Innovation, 2004).

As Malaysia move towards the goal of achieving the status of an economically developed nation by the year 2020, SMEs as one of the engine of economic growth are envisaged to play a significant role. The 2000 Census by the Malaysian Department of Statistics (DOS) enumerated 89.8% of the 20,455 establishments in the manufacturing sector and 96.8% of the 192,527 establishments in the services sector were SMEs. Further, the percentage contribution of SMEs to GDP/total attained by Malaysia was a value of 47.3%, which is comparable to the achievement of 50% in Korea, 55.3% in Japan, 57.0% in Germany, and 60% in China (Mohd Aris, 2006).

Despite the important contribution of SMEs to the Malaysian economy, according to Saleh and Ndubisi (2006, p. 12), “there is a wide recognition in the literature about the challenges and barriers facing SMEs in Malaysia, preventing them from growing further and putting them in a critical position to face the new challenges that are arising from globalization, liberalization and extensive organizational, institutional and technological change.

To address these issues, the recently launched 9<sup>th</sup> Malaysian plan by the Prime Minister, Honourable Abdullah Ahmad Badawi, is seen as an affirmative action-based policy to improve the resilience of SME community, where one of the keys to ensuring the intended targets are achieved. Among the plan’s priority will be to ensure the strengthening of the capacity and capability of SMEs to enable them to innovate, produce quality products and services at competitive costs and integrate into international supply chain (9<sup>th</sup> Malaysian Plan, 2006).

Despite all the effort that has been undertaken by the Malaysian government, it has been well documented that the barriers facing SMEs especially high technology related firms in Malaysia are undermining their performance. According to Salleh and Ndubisi (2006) some of the existing literature, including Wan (2003); Stuti (2005); Moha (1999); Hall (2002); and SMIDEC (2000), highlight many challenges facing SMEs in a globalized environment, for example: a lack of financing, low productivity, lack of managerial capabilities, access to management and technology, heavy regulatory burden imposed by government.

Souitaris (2001) contended that most of the empirical research on the influences of innovation has been carried out in industrialized developed nations. He argues that it is rather inappropriate to use findings of innovation studies undertaken in technologically advanced countries to explain innovative behavior in countries with a less developed technological base. Thus, more serious attention should be given in addressing all these issues, especially with regard to the lack of managerial capabilities among the leaders of Malaysian SMEs.

Thus, this paper present a valuable opportunity to look into the importance of leadership in Malaysian SMEs and their role in shaping and developing competitive strategy in ensuring their firms’ long term survival. This is because Malaysia as one of the most progressive developing Asian countries which now is focusing on innovation as the strategic incentive to leap forward in the 21<sup>st</sup> century. Other recent research

into particular conditions about Asia's newly industrialized country's (NICs) (as cited in Souitaris, 2001) and other in developing countries.

### **Conceptual Research Model**

Even though the importance of a leader's influence on strategy and innovation has been gaining momentum, it is relatively new as a field of enquiry as compared to such areas as small group effectiveness and satisfaction (Nahavandi & Malekzadeh, 1993).

A brief review by Leavy (1996) on leadership in the strategy field provides some answers to the phenomena. His investigations suggest that the origins of the field can be traced back some 40 years ago by Chandler (1962), Sloan (1963), and Ansoff (1965), these studies were underpinned by a rationale-instrumental orientation. Organization was the highlight rather than individual flair, where it was considered the main foundation of long term success. In other words, management was more important than leadership.

However, the work of Hambrick & Mason (1984), which draws on the early work of Child (1972) about the upper echelon perspective where the relationship between the top managers' characteristics and organizational outcomes – strategic choices and performance levels – is seen as intertwined and cannot be separated, has sparked renewed interests in this field.

Research in this field has been divided into two main schools – one which contended that leaders and top management teams (TMTs) play the role of implementer of the strategy initiated by the organization (Chaganti & Sambharaya, 1987; Entrialgo, 2002; Thomas & Ramaswamy, 1988). This first group of work has adopted the well tested and well established contingency view proposed by theory and research leadership at the micro level (Afsaneh & Malekzadeh, 1993). According to this view, the strategy preceded the leaders or top managers and their characteristics, cognitive ability and values have to be matched to the organization's strategy. In sum, they are restricted by the inertia of the organization and have to adapt to it to achieve satisfactory performance. The view is rather not surprising in part because most of the studies were done looking at big established firms.

The other research school contends that leaders especially the CEOs play an important role in formulating the strategy of the organization (Guth & Tagiuri, 1965; Kets De Vries & Miller, 1986; O'Regan & Ghobadian, 2004). Overall, the findings of these studies suggest that the demography, personality and behaviour of leaders in play a very crucial role in determining the strategy of the organizations. This study is interested in extending the second school of research where leadership, especially in the small firms, is seen as the one element which is determining the direction and strategy of these organizations. Leaders in the context of an organization, especially in the small firm, occupy a position of unique influence, serving as the locus of control and decision making (Daily *et al.*, 2002).

By means of selecting the best strategy in competing in the competitive global world, it is assumed that the organization will ensure its long term survival. One key to competitiveness is said to be innovation, where failure to innovate is likely to result in reduced competitiveness (O'Regan & Ghobadian, 2005). Hence, the ability for leaders of organizations to select the most appropriate strategy to ensure that their organization is innovative is vital.

This study offers the possibility of integrating the interrelationship between a leader's styles (in particular, based on the Bass (1985) styles of transformational, transactional and laissez-faire) and a firm's strategic orientation (in particular, based on the Miles and Snow (1978) typology of prospectors, analyzers, and defenders) in understanding why some firms are more successful at innovations than others.

## **Small and Medium Enterprises (SMEs) and Innovation**

Due to the rapid changes in the economic environment, businesses small and big are required to respond to it quickly to ensure their long-term survival. Today's businesses are not likely to survive in this period of rapid change and innovation unless they acquire entrepreneurial competence (Battacharyya, 2006). Even though SMEs play an important contribution to the economy of most international economy (OECD, 2004a; APEC, 2005), the empirical research tend to focus on the impact of large organizations, especially related to innovation (Gudmunson, Tower & Hartman, 2003).

SME is defined as a business enterprise that has fewer than 250 employees and an annual turnover less than EURO 50 million (OECD, 2004b). In the Asia Pacific Economic Region (APEC), due its large number of member countries, there is no standard definition with regard to SME. A common feature of SMEs in APEC is that it is an enterprise that employs less than 100 employees while the micro enterprises is less well defined but pointed to enterprises that employ less than five employees. Not only that, the definitions also vary according to industry where the manufacturing sector has larger cut off points in the number of employees than the services sector.

The Malaysian National SME Development Council in 2005 meanwhile defined SME in Malaysia based on: i. the number of employees, or ii. annual turnover. However, there are differences between the industries in terms of the number of employees and annual turnover. For the agriculture industry and services industries, an SME is defined as an enterprise that employs less than 50 employees with annual turnover less than RM 50 million. As for the manufacturing industry, an SME is defined as an enterprise that employs less than 150 employees with an annual turnover of less than RM 25 million.

Due to these differences, this study will adopt the definition given by the Malaysian National SME Development Council in 2005 because the data provided by the MSC Impact Survey in 2004, indicated that on average the firms in MSC employ 30.7 employees with annual turnover of RM 9.7 million.

SMEs in APEC area make up over 98% of all enterprises, account for 30% of direct exports, 10% of foreign direct investment by value, and 60% of private employment. They have been the engine to economic growth in APEC economies (APEC, 2005). The same applies to SMEs in America where small businesses which employ less than 500 employees contributed to a significant amount of the U.S economy (Gudmunson *et al*, 2003). According to a report by SBA (1998), as cited in Gudmunson *et al* (2003), small firms are an "... integral part of the renewal process that pervades and defines market economies. New and small firms play a crucial role in experimentation and innovation, which leads to technological change and productivity growth.

In Malaysia, SMEs contribution to the economy through innovation is crucial in developing the country as a developed country by the year 2020. The extent of innovation taking place in the country will determine the economic sustainability in view of the globalized world economy. Recent survey conducted by the Malaysian Science and Technology information Centre (MASTIC) during 2000-2001 and Multimedia Development Corporation (MDeC Malaysia) in 2004 show a positive correlation between the innovation activities taken by the SMEs and contribution to the country's economy.

However, as described earlier, challenges facing Malaysia's SMEs in a globalized environment such as a lack of financing, low productivity, lack of managerial capabilities, access to management and technology, heavy regulatory burden imposed by the government must be properly addressed. These must be overcome with an appropriate managerial capability especially through entrepreneurial capability and strategy to ensure that those factors did not affect their innovation performance.

## **Entrepreneur and Technopreneur**

Hisrich *et al* (2005) define an entrepreneur according to the behaviour display which includes: i. initiative taking, ii. the organizing and re-organizing of social economic mechanisms to turn resources and situations to practical account and, iii. the acceptance of failure. According to them, an entrepreneur can be looked at

the entrepreneurial activity that he or she is taking which involves the process of creating something new with value by devoting necessary time and effort, assuming the accompanying financial, physical and social risks and receiving the resulting rewards of monetary and personal satisfaction and independence.

As technology and innovation become central to the survival of many SMEs, there is a need to look at entrepreneurs who are engaged in this kind of entrepreneurial activity. Venkataraman (2004) defines these people as “technopreneurs” where their main business activities are technology intensive. These technopreneurs can be further delineated into several groups where the first group consists of those people who have strong scientific and technical background and comes from the academic background, and are most likely to be involved in the R&D activities of their company. The second group is those with the technical background but comes from large organizations. They have a stronger orientation towards production and commercialization. And the last group is those with little technical background but have the competency in marketing and sales, a criteria which is very important is commercialization (Jones-Evans, 1995).

Batthacharyya (2006) argues that for an entrepreneur as well as technopreneur to be successful, one has to provide practical, insightful, and innovative solutions to problems. Having a trusted and capable top management will ensure that the task of developing the organization becomes more effective (Che Ros *et al*, 2006). Not only that, he or she must have an understanding of the changes happening around him or her and strategically plan necessary actions to deal with those changes to ensure the competitiveness of his or her organization.

### **Innovation**

There are various definitions of innovation. Linder *et al*. (2003) defined innovation as “implementing the new ideas that create value”. According to Janszen (2000), Schumpeter defined innovation as “the commercialization of all new combinations based upon the application of; i. new materials and components, ii. the introduction of new processes, iii. the opening of new markets, and iv. the introduction of new organizational forms”. Both definitions encompass that innovation covers various forms from new product or new technology development and new processes management which is intended to provide an organization with the competitiveness to compete with their rival.

While the literature seems too focused on the barriers to innovation, less is known about what encourages and drives innovation, especially in the development of new technology and process innovation from the perspective of strategic orientation (O’Regan & Ghobadian, 2005). This study will provide an opportunity to address the issue raised by Shoham & Figanbaum (2002), as cited in O’Regan & Ghobadian (2006), who suggested that there is a need to theoretically integrate the link between organizational contexts with innovation. As has been mentioned earlier, the leader’s choice of goals, strategies, and competitive intensity will affect the organization’s innovativeness (Engelland & Summey, 1999).

### **Strategic Orientation**

In order to be competitive, all firms regardless whether they operate in the same industry or not will respond differently to their environment (O’ Regan & Ghobadian, 2005). Some will adopt a strategy based on their traditional strengths, while other will take more risk by becoming adventurous leading the market that they operate in. This responses to their environment is known as their strategic orientation which Manu & Sriram (1996, p. 79) defined as “How an organization uses a strategy to adapt and/or change aspects of its environment for a more favourable environment”.

There are two prominent strategy typologies that have been extensively researched in understanding organizations’ strategic orientation. Mile & Snow (1978) and Porter (1980) strategy typology, both have their own distinction in differentiating how organizations could be competitive in their environment. Closely related to understanding an organization’s strategic orientation will be Miles & Snow typology, whereas Porter’s generic strategy is inclined towards strategic positioning of the organization. For the

purpose of this study, Miles & Snow strategic orientation typology will be used because the tendency of small firms or organizations to adapt only one strategy at a time due to their constraint of resources, expertise and finance.

The Miles & Snow strategic orientation introduced in 1978 was based on the work of Child (1972) regarding an organization's "strategic choice" which view that the direction and vision that the leadership and management an organization dictated will influence its strategic orientation (O'Regan & Ghobadian, 2005). As the decision maker for their organization, they have to address three basic problems based on their environment that is the organization's competitiveness in the market (entrepreneurial problem), the deployment of resources to achieve the competitiveness (engineering problem) and the administration to implement all these actions (administrative problem).

Miles and Snow contend that each of these strategies can be found in a given industry, and that each can lead to high performance if properly implemented. The theory posits that performance will be highest in firms that simultaneously address entrepreneurial, engineering and administrative problems in a manner that is internally consistent (Blumentritt & Danis (2006). Those decisions will be reflected in the form of the organization's strategic orientation and can be classified into four main orientations that is i. Prospector, ii. Analyzer, iii. Defender, and iv. Reactor.

According to Miles & Snow (1978), prospectors devote more resources to entrepreneurial tasks, monitoring evolving trends in the marketplace, and new product development, and are led by a dominant coalition that possesses an expertise in marketing and R&D. Prospector welcome and thrive in innovative, dynamic environments, maximizing new opportunities where they are likely to be first to the market and exploit the opportunity, hence, they have higher tolerance for risk and are flexible to adapt necessary changes (O'Regan & Ghobadian, 2005)

In contrast, Miles & Snow (1978) described defender organizations as the one which focus on engineering tasks, place a high priority on improvements in efficiency, and prefer stability and status quo. Instead of venturing aggressively, they concentrate on their strength and try to improve it so that they are capable to improve the efficiency and capability of their existing product.

Analyzers, given their hybrid nature, are more complex and balanced functionally. In stable product-market domains, analyzers emphasize production and strive for improved efficiency. In more turbulent product markets they closely monitor key competitors and adopt only those innovations which appear to have strong market potential. According to Blumentritt & Danis (2006), they behave like defenders in the more stable areas and like prospectors in the more turbulent areas and their organizational structures and processes are a combination of those found among prospectors and defenders.

Reactors respond to the challenges of the adaptive cycle in uneven and transient ways; they tend to be short-term oriented and environmentally dependent. They react only when there is problem and most of the time adopt a wait and see attitude. In other word, reactors organization can be viewed as one that lack internal consistency in dealing with the basic problems that they faced (Miles & Snow, 1978). This resulted in their inability to compete with the other three types of organizations and have serious implication on their organizational innovativeness and long term survival.

Accordingly, the following hypotheses are formulated:

- H1: SMEs with prospector strategic orientation will exhibit a higher degree of innovation as compared to SMEs with a defender, analyzer and reactor strategic orientation.
- H2: SMEs with defender strategic orientation will exhibit a higher degree of innovation as compared to SMEs with a reactor orientation but lower than SMEs with prospector and analyzer strategic orientation.

- H3: SMEs with analyzer strategic orientation will exhibit a higher degree of innovation as compared to SMEs with defender and reactor strategic orientation but lower than SMEs prospector strategic orientation.
- H4: SMEs with reactor strategic orientation will exhibit lower degree of innovation or no innovation as compared to SMEs with prospector, defender and analyzer strategic orientation.

## **Leadership**

Moxley (2000) said that leadership is an elusive concept and it can have different definitions. According to Northouse (2006), Fleishman has found that during the last 60 years, there are 65 different classification systems have been developed to define leadership. It range from leadership as the focus of group processes, to personality perspective, an cat or behaviour, power relationship, to skills perspective.

Based on these classification systems, Northouse (2006) identified the following components as central to the concept of leadership: i. Leadership is a process, ii. Leadership involves influence, iii. Leadership occurs in a group context, and iv. Leadership involves goal attainment. Thus, he defined leadership as “a process whereby an individual influences a group of individuals to achieve a common goal”. A similar definition was also offered by Wehrich & Koontz (1993) where leadership is defined as “the art or process of influencing people so that will strive willingly and enthusiastically toward the achievement of the group’s mission”.

Both definitions stress the dynamic interaction between leaders and followers to influence and impact each other through a common denominator, which is the strategic vision of the organization that they represented. Leaders, especially in the small organizations, have the privilege to be the locus of control and influence to provide goals, objectives, vision or specifically strategic direction to their followers. It is now commonly recognized that exceptional leaders (and by definition these are the only type of strategic significance) are those that are able to endow their organizations with a strong sense of vision and mission (Bennis & Nannus, 1985)

Indeed, as Westley and Mintzberg (1989) have noted, it could be argued that the concept of leadership and strategy have, for many, now been fused into the concept of strategic vision. Evidence has also suggests that the formulation and deployment of strategic actions by effective leaders result in strategic competitiveness and above-average rent returns (Ireland and Hitt, 1999). Further empirical research has also shown that the ability of the leader to select and formulate appropriate strategy will enhance their organizations’ competitiveness and performance (Miller, Kets de Vries & Toulouse, 1982; Kets de Vries & Miller, 1984).

## **Transformational, Transactional and Laissez-Faire Leadership**

Even though there is a lack of agreement about which classification systems represent leadership concept very well, for the purpose of this study, leadership theory put forward by Bass (1985) will be used. It contains three distinct leadership styles: i. Transformational, ii. Transactional, and iii. Laissez-Faire. Based on the work of Burns (1978), Bass expanded and refined the theoretical definition and apply it to the business environment.

According to Bass (1985) transformational leadership is the most effective leadership where it motivates followers to do more than the expected by (i) raising followers’ level of consciousness about the importance and value of specified and idealized goals, (ii) getting followers to transcend their own self-interest for the sake of the team or organization, and (iii) moving followers to address higher level needs. Meanwhile, transactional leadership is distinct from transformational leadership where it does not individualized the needs of subordinate or focus on their personal development but rather exchange things of value with subordinates to advance their own and their subordinates’ agenda (Northouse, 2006). Finally, laissez-faire leadership is the least effective of leader where it symbolized the absence of leadership in an



organization or context. As the French phrase implies, the laissez-faire leaders take a “hands-off, let-things-ride” approach where he or she takes no responsibility or provides any direction or motivation for the followers (Northouse, 2006). Thus, it affects the strategic competitiveness of the organization.

Transformational leadership can be characterized as being composed of four unique but interrelated behavioral components: inspirational motivation (articulating an appealing and/or evocative vision), intellectual stimulation (promoting creativity and innovation), idealized influence (charismatic role modeling), and individualized consideration (coaching and mentoring) (Bass & Avolio, 1994). The first behavioral component that exists in a transformational leadership is idealized influence. It is also called charisma where the leader is identified by the followers as someone with high moral standard and ethical conduct, thus, the followers feel that they are able to identify themselves with the leader. They are perceived by the followers to provide a sense of vision and mission. This vision and mission becomes the driving force in uniting their organization towards a common goal. Because innovation involves creativity, which can be said as ill-defined ventures (Ford, 2001), a careful planning of strategy and objectives must be done so that it can achieve the competitive needs of the organization. The second behavioral component deals with the ability to provide inspiration or called as inspirational motivation. As the leaders set the objective of making their organization innovative, the complexity of creativity will have to force them to provide inspiration and motivation so that the ill-defined ventures become a reality. Additionally, this is done through the third and fourth behavioral component which is intellectual stimulation and individualized consideration. Intellectual stimulation platform will be provided in the implementation of the vision and mission where the creativity and innovativeness of the followers will be challenged and nurtured. Lastly, the leaders will ensure that the individual needs of the followers are taken care of so that the followers remained highly motivated throughout the ill-defined and turbulent ventures.

The combination of these behavioural components resulted in improved performance and innovation among the followers and organizations (Bass & Yammarino, 1992; Jung, 2001; Sosik, Kahai & Avolio, 1998). Pawar and Eastman (1997) also noted that transformational leaders are associated with certain environmental conditions – complexity, uncertainty, and novelty of the work – which involve constant changes. Recent work by O’Regan & Ghobadian (2004) has shown that transformational leaders are associated with almost all the factors of crafting strategy: external orientation, internal orientation, staff creativity, departmental co-operation and control which ensure that their organization are innovative and able to perform in the long term.

Meanwhile, transactional leadership exchange rewards with their subordinates to advance their own and subordinate goals. Two main components: contingent reward and management-by-exception characterized this type of leaders. The first component focuses on the agreement between leaders and their followers of what are need to be done and how it will be rewarded. The second focuses on the aspect of management-by-exception where corrective criticism, negative feedback, and negative reinforcement. It has two forms: active and passive. One involves close monitoring and supervision of followers where corrective actions are being taken in any mistakes or rules violation. The other only involves or intervenes after a standard or goal has been met.

As compared to transformational leadership, transactional leadership association with performance is somewhat less encouraging especially the component that relates to passive management by exception (Howel & Avolio, 1993). The reactive especially related to passive management-by-exception attitude would certainly point towards formulation of strategy which is not as adaptive and as risky as the transformational leadership. As O’Regan & Ghobadian (2004) found in their study, transactional leadership is more focused on the internal environment of the organization instead of monitoring the external environment. It can be assumed that transactional leaders would prefer to maintain the status-quo rather than challenge it, thus allowing them to formulate a safer and more cautious strategy.

But rather than viewing transformational and transactional leadership paradigm as a two distinct constructs, Bass (1985) viewed it as a complementary. He said that both are linked to the achievement of desired goals and objectives, in other words, both drive performance of the firm. According to Bass et al (1987), a given manager may be both transactional and transformational, where transformational leadership will augment the impact of transactional leadership. This is most relevant especially in the small firms where

the smaller size of human resources will force a leader to not only provide vision, mission and motivation, but he or she is also required to manage the day to day affair of the firm.

Finally, there is laissez-faire leadership which can be said to represent an absence of leadership (Northouse, 2006). This type of leadership style can be said to show no leadership, where this type of leader will only take a very minimal or no role at all in leading, organizing, planning and monitoring of their organization. Hence, it can be expected the organizations that they lead will have an incoherent and inadequate strategy to be competitive in their industry.

Based on the following argument, the following hypotheses are formulated:

- H5:
- a. Transformational leadership will exhibit the highest positive relationship to prospector type of SMEs
  - b. Transformational leadership will exhibit a positive relationship to analyzer type of SMEs
  - c. Transformational leadership will exhibit less than positive relationship to defender type of SMEs
  - d. Transformational leadership will exhibit a negative relationship to reactor type of SMEs
- H6
- a. Transactional leadership will exhibit a less than positive relationship to Prospector type of SMEs
  - b. Transactional leadership will exhibit a positive relationship to analyzer type of SMEs
  - c. Transactional leadership will exhibit the highest positive to defender type of SMEs
  - d. Transactional leadership will exhibit a negative relationship to reactor type of SMEs
- H7
- a. Laissez-faire leadership will exhibit the highest negative relationship to prospector type of SMEs
  - b. Laissez-faire leadership will exhibit a negative relationship to analyzer type of SMEs
  - c. Laissez-faire leadership will exhibit a less than positive relationship to defender type of SMEs
  - d. Laissez-faire leadership will exhibit the highest positive relationship to reactor type of SMEs

### **Matching Leaders to Strategy**

Following previous research studying leadership and strategy where the concept of matching the leader to the existing strategy, this study will propose that a proper match between leadership style and strategic orientation will enhance the organizational innovativeness. Since transformational leadership are more open to changes and operates in a more dynamic environment, the selection of a prospector strategy will enhance their organizational innovativeness. Meanwhile, transactional leadership, which is known to operates in stable environment and prefer status-quo, the selection of defender strategy will enhance the efficiency in producing innovation. Based on this argument, the following hypotheses are formulated:

- H8: Transformational leadership will enhance their organizational innovativeness when selecting prospector strategic orientation
- H9 Transformational leadership will enhance their organizational efficiency when producing innovation when selecting defender strategic orientation

### **Moderating Variables**

The effect of leadership on strategic orientation of the organization and innovation should be examined while controlling that top management teams (TMTs) demographic characteristics such as educational background, experience, homogeneity and heterogeneity and size, and organizational characteristics such as size, age and capital ownership.

Since previous studies have indicated TMTs characteristics and size have an impact upon an organization's strategy and innovation (Bantel & Jackson, 1989; Chaganti & Sambharaya, 1987; Entrialgo, 2002; Thomas & Ramaswamy, 1988), it is included in this study as one of the main moderating variables.

Although empirical evidence of the impact organizational size on innovation received mixed support, some has said larger firms are innovative (Damanpour, 1997) while others argue it (Hitt et al, 1990) it is decided that it will be included in light of the empirical data.

Hurley and Hult (1998) has found that older organization is less innovative than the new one due to its bureaucratic nature and slow reaction to change, while new organization are more inclined to innovation due to the necessity in trying to capture the market (Garvin, 1983). Thus, it can be argued that the age of the firm will have some impact on its attitude about innovation.

Finally, it is argued that the difference between the statuses of the leaders leading the organizations will determine its propensity towards innovation. As innovation involves creativity, which is described as ill-defined ventures, there is an element of risks associated with it. According to Schein (1968), hired managers will not take the same risks as the owner managers when making decisions because of the bad repercussion if something goes wrong with the decision. Thus, it is expected that the capital ownership will have a positive effect on the attitude on innovation as well as the strategy achieving it.

Table 1 depicts the interrelationship between leadership and strategic orientation of the firms in determining its innovativeness. The style of leadership chosen by each leader will influence their selection and formulation of strategy. Their ability to choose the best strategy in ensuring their firms become competitive in the respective industry will directly influence their firms' innovativeness.

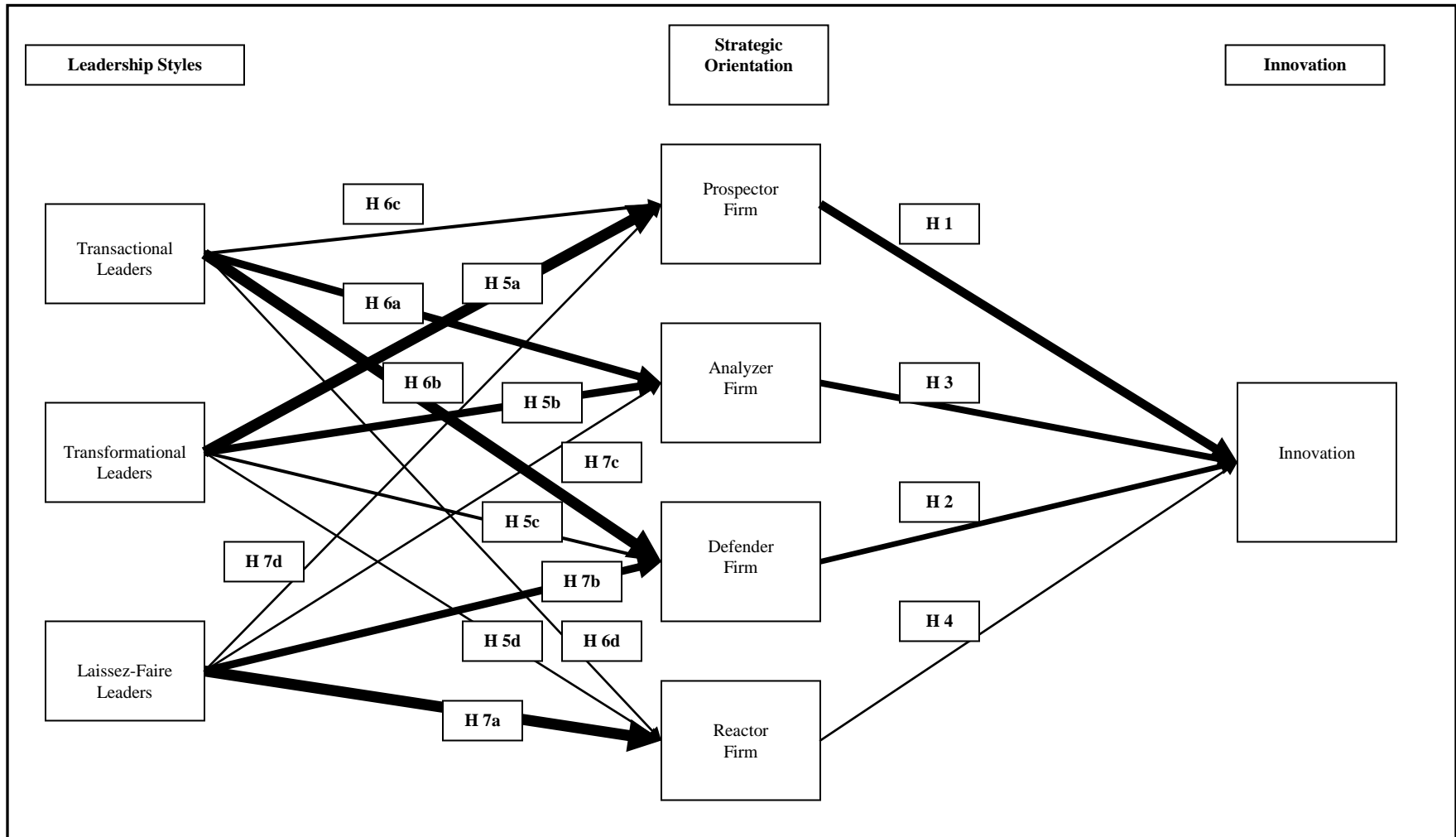


Table 1: Model of innovative influences of SMEs.

## **Conclusion**

Clearly, leaders play an important role in shaping the directions and future of their organizations, especially with regards to innovation. Their styles will determine what strategic orientation the organizations will follow. Highly adaptive leadership such as transformational leaders will most likely select proactive and positive strategic orientation. Hence, this will enhance their organizations' innovation effectiveness where new products are likely to be introduced at a more frequent rate. At the same time, less adaptive leadership such as transactional leaders will most likely select a stable and predictable strategic orientation. This will result in increased efficiency in the organizations' innovation processes.

Thus, it is very crucial for leaders to understand their own leadership styles and how these styles are actually shaping their organization's strategic orientation. This is because the ability to develop the most appropriate leadership styles to drive the organization forward will determine whether it will survive the onslaught of the era of innovation.