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Leadership and organisational performance as mediated by innovation in SMEs

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Extended Abstract

Numerous research has indicated that innovation can assist corporations in creating product differentiation, developing competitive advantage and reinforcing excellent performance that can be sustainable into the future (i.e. Hargadon, 2005; Turner 2006). Innovation has been found as one of the major attributes that aid Small and Medium Enterprises (SMEs) to remain competitive in the global competition (Casals, 2011). As a result, SMEs are seeking ways to engage in developing and maintaining innovation to build their competitive advantage (Mathews & Bucolo, 2011).

Scozzi & Garavelli (2005) argue that leadership is one of the essential factors that contribute to innovation capabilities and productivity growth in SMEs. Based on the initial idea of what constitute design leadership by Turner & Topalian, (2002), this paper aims to examine the relationship between leadership and workplace innovation and organisational performance. A conceptual framework and hypotheses are developed and tested. The study will not only contribute to the body of knowledge in the field of leadership and design but will also advance our understanding of the concept of design leadership and its influence on workplace innovation and Organisational performance. Figure 1 presents a conceptual relationship between Design leadership, Workplace innovation and Organisational performance. It proposes that design leadership will contribute to the improvement of workplace innovation and in turn will enhance organisational performance both growth and profitability. It also proposes that both design leadership and workplace innovation may also directly and significantly affect SMEs' ability to grow and make profit.

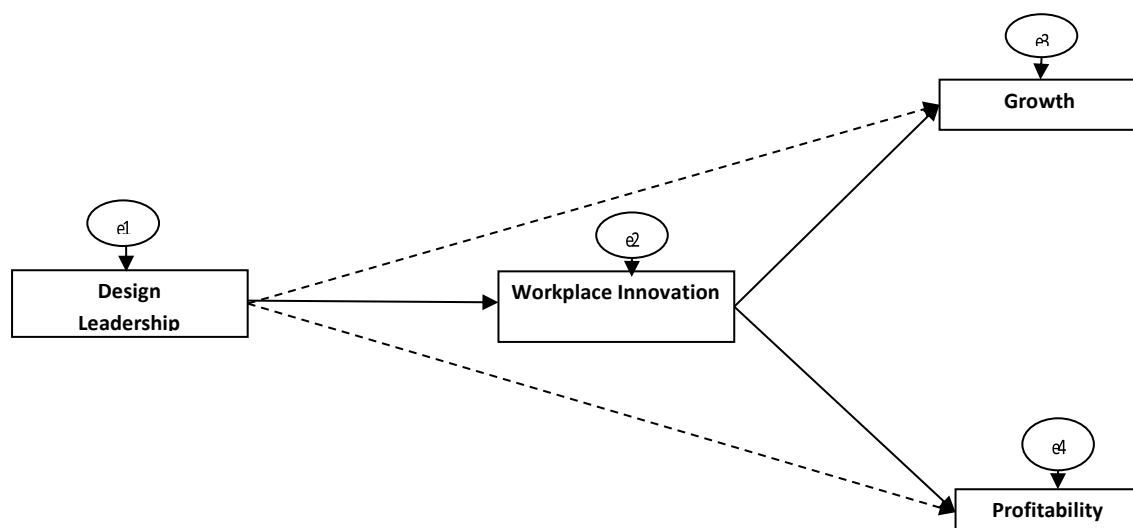


Figure 1: Conceptual Framework

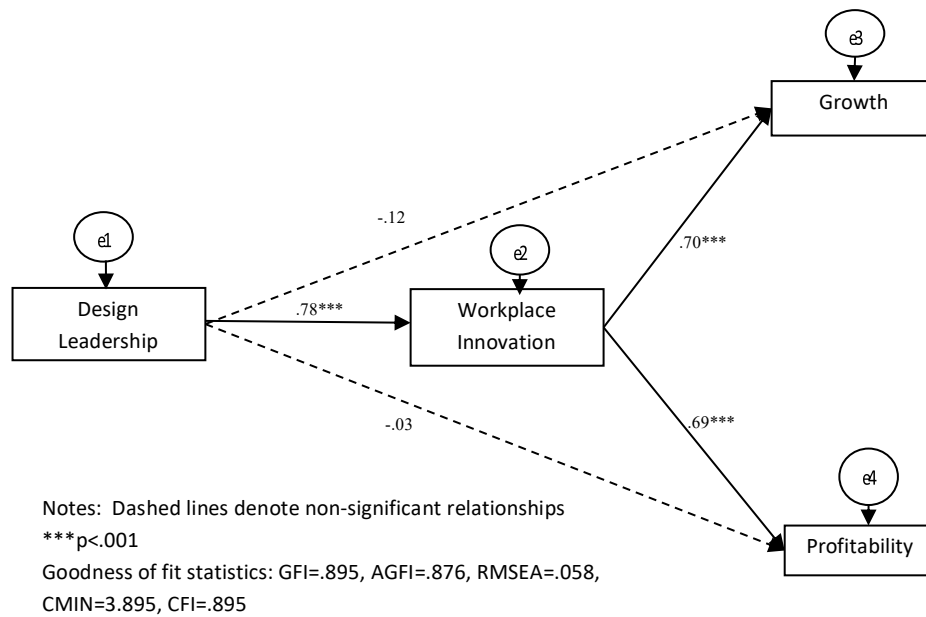
Based on the proposed framework, the following hypotheses were developed to investigate the theoretical framework establishing relationships between design leadership and workplace innovation and performance outcomes.

- *H 1: Design leadership has a significant effect on Workplace Innovation*
- *H 2: Design leadership has a significant effect on Growth*
- *H 3: Design leadership has a significant effect on Profitability*
- *H 4: Workplace innovation mediates the relationship between Design leadership and growth*
- *H 5: Workplace innovation mediates the relationship between Design leadership and profitability*

A standard multiple regression was performed to analyse the effect of design leadership on workplace innovation as dependent variable. By using the enter method, a significant model emerged ($F_{4,857} = 232.726$, $p = 0.000$). Altogether, the dimensions of design leadership predicted 51.8% (adjusted R^2) of the variability in workplace innovation. Thus, H1 is fully supported. A multiple regression was performed to analyse the significant effect of design leadership on growth as dependent variable. By using the enter method, a significant model emerged ($F_{4,857} = 42.48$, $p = 0.000$). Altogether, the dimensions of design leadership predicted 16.2% (adjusted R^2) of the variability in growth performance. Thus, H2 is fully supported. A multiple regression was performed to analyse the significant effect of design leadership on profitability as dependent variable. By using the enter method, a significant model emerged ($F_{4,857} = 53.228$, $p = 0.000$). Altogether, the dimensions of design leadership predicted 19.5% (adjusted R^2) of the variability in profitability. Thus, H3 is fully supported. To test hypotheses 4 and 5, an initial full model consisting of all constructs was developed and the results of the goodness-of-fit statistics were as follows: $\chi^2 = 1526.967$, $df = 392$, $\chi^2/df = 3.895$, RMSEA = 0.058 GFI = .895 CFI = .895 and AGFI = .876. These results mean that the model fit well with the data of this study. Based from Figure 2, it was demonstrated that workplace innovation mediates the relationship between design leadership and growth. The direct path between design leadership and growth was found to be insignificant ($\beta = -.12$, $p > 0.05$). The paths between design leadership to workplace innovation ($\beta = 0.78$, $p < 0.001$) and between workplace innovation and growth ($\beta = 0.70$, $p < 0.001$) were found to be significant. It means workplace innovation mediates the relationship between design leadership and growth performance and thus Hypothesis 4 is fully supported.

At the same time, the model also indicated that the direct path between design leadership and profitability was found to be insignificant ($\beta = -.12$, $p > 0.05$). But the paths between design leadership to workplace innovation ($\beta = 0.78$, $p < 0.001$) and between workplace innovation and profitability ($\beta = 0.70$, $p < 0.001$) were found to be significant. It means workplace innovation mediates the relationship between design leadership and profitability performance and thus Hypothesis 5 is fully supported.

Figure 2:



The research findings have several theoretical and practical implications. Design leadership has been considered as a concept complementary. There are limited research examine the relationship between Design leadership and workplace innovation. Further, the research investigating how organizations use Design leadership to improve performance is rare. To this point, this research partially filled up this research gap by having developed a theoretical framework illustrating how Design leadership contribute to the improvement of workplace innovation, and in turn enhance organizational performance in terms of growth and profitability. The study also provides an overall guideline for managers to set up the procedures contributing to improve the workplace innovation by considering the four dimensions of design leadership: Envisioning the future, Directing design investment, Manifesting strategic intent and Nurturing design environment. Meanwhile, Work place innovation can be served as a mediator to improve organizational performance. Further, cultural factors should be considered as an important factor for Design leadership and workplace innovation, especially for some developing economics.

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