

## **Joint Conference: 14<sup>th</sup> ISMC and 8<sup>th</sup> ICLTIBM-2018**

### **THE RELATION BETWEEN AUTHENTIC LEADERSHIP, BUSINESS CAPABILITIES AND BUSINESS PERFORMANCE**

Cemal Zehir (a)\*, İsa Hemedan (b), Yasin Şehitoğlu (c), Esra Erzengin (d)

\* Corresponding author:

(a,b,c) Yıldız Technical University, 34349, Istanbul, Turkey

(d) Beykent University, 34398, Istanbul, Turkey

#### ***Abstract***

The study examines the relation between authentic leadership, business capabilities such as learning, entrepreneurship, product development and business performance. The study comprises of a qualitative research which includes a comprehensive literature review. Leadership style, particularly authentic leadership which has a significant effect on business capabilities (learning, entrepreneurship, product development) is explained in detail. According to the hypotheses of the study; it is put forward that authentic leadership effects capabilities of a company such as learning, entrepreneurial and product development. On the other hand, learning, entrepreneurial and new product development capabilities effect business performance. According to the literature review conducted within the study, it is observed that authentic leadership effects a company`s learning, entrepreneurial and product development capabilities positively as well as learning, entrepreneurial and new product development capabilities effect business performance in a positive way. Further studies including quantitative research is recommended since the study consists of a qualitative research.

© 2019 Published by Future Academy [www.FutureAcademy.org.UK](http://www.FutureAcademy.org.UK)

**Keywords:** Authentic leadership, learning capability, entrepreneurship capability, product development capability.



This is an Open Access article distributed under the terms of the Creative Commons Attribution-Noncommercial 4.0 Unported License, permitting all non-commercial use, distribution, and reproduction in any medium, provided the original work is properly cited.

## 1. Introduction

Today change and speed are considered as two important elements that define environmental factors. The fact that businesses can earn an average profit and gain competitive advantage over their competitors are two essential factors for their survivals in the long run. In such a dynamic environment, customer demands and preferences change almost every single day. Businesses constantly develop new strategies and compete with their industry counterparts in order to meet changing customer demands and expectations. According to the resource-based theory; businesses acquire competitive advantage over their competitors depending on their internal resources and capabilities (Wernerfelt, 1984; Amit & Shoemaker, 1993; Grant, 1996; Kor & Mahoney, 2004; Barney & Clark, 2007). In this regard, capabilities such as **learning** (Senge, 1990; McGill, Slocum, & Lei, 1992; Dibella, News, & Goid, 1996; Goh & Richards, 1997), **entrepreneurship** (Miller, 1983; Lumpkin & Dess, 1996; Zahra, Jennings, & Kuratko, 1999; Wang, 2008; Li, Huang & Tsai, 2009) and **new product development** (Karagozlu & Brown, 1993; Schilling & Hill, 1998; Schilke, 2014; Yu, Hao, Ahlstrom, Si, & Liang, 2014) based on business resources will greatly contribute to achieving sustainable competitive advantage in an ever-changing environment. However, new leaders are needed who can lead to the creation of an organizational culture in which resources and talents are well-managed, coordinated and enabled so that new talents with strategic importance can be derived from and spread within the organization. In today's turbulent environment many negative developments create the demand for a new style of leadership under which organizations can reassure confidence and high moral understanding among their employees. Therefore, interest in authentic leadership has increased sharply over the recent years. In this context; this study examines the relation between organizational skills such as learning, entrepreneurship and product development and the role of authentic leadership and how they influence business performance. The study adds a new dimension to the relevant studies within the literature which only examine the relation between business performance and talents by researching the effect of authentic leadership on this relation.

## 2. Literature Review and Theoretical Framework

The resource-based theory (Wernerfelt, 1984; Amit & Shoemaker, 1993, Grant, 1996; Kor & Mahoney, 2004; Barney & Clark, 2007) argues that the determinant of sustainable competitive advantage between competitors is based on business resources and capabilities that are derived from the resources. Over the recent years, while studies have shown that learning and entrepreneurship are defined as transformative capabilities (Lado & Wilson, 1994) of organizations that need to transform inputs into advantageous outcomes, product development in rapidly changing turbulent environments is defined as a dynamic capability (Schilke, 2014) which is also one of the fundamental sources of competitive advantage.

Therefore, there is an urgent need for new leaders who can contribute to the creation of an organizational culture that leads to the emergence of new talents by coordinating and managing these resources and capabilities. In other words, this rapid change has shifted the leadership style needed and forced new leadership models in order to suit the needs of today's highly dynamic environment. This shift has improved an interest in authenticity and authentic leadership as a new leadership model, influenced by a number of recent negative incidents such as misgovernment, scandals within governmental institutions, and greater social challenges faced by the public and private organizations. (George & Sims, 2007; Avolio & Gardner, 2005; Walumbwa, Avolio, Gardner, Wernsing, & Peterson, 2008).

### **2.1. Authentic leadership**

Avolio and Gardner (2005) state that recently leading is more difficult and today's unique challenges faced by organizations around the world provide a renewed focus on what constitutes authentic leadership. Public, private and even voluntary organizations come across challenges ranging from moral decay to terrorism and SARS. Under these conditions, the elements that constitute regular operations show instant change with new trends, technological changes, market demands and competition. Such difficulties have improved the demand on re-establishment of trust, hope and optimism (Avolio & Gardner, 2005).

So far there have been many specific definitions of leadership including; positive self-awareness, an internalized moral outlook, a balanced handling of information, a relational transparency of the leader working with his followers, a positive self-awareness which attracts and encourages positive psychological capacities, and a positive ethical climate within a model of leadership that promotes positive personal development (Walumbwa, Avolio, Gardner, Wernsing, & Peterson, 2008).

### **2.2. Learning Capability**

Senge states that organizations learn through learning individuals and that individual learners do not guarantee organizational learning but organizational learning will not occur without individual learning. Dibella, News and Goid, (1996) defines organizational learning as the process or capacity that improve and sustain the performance based on experience and states that organizational learning involves knowledge acquisition (such as improving or creating skills, intuitions or relationships), knowledge sharing (spreading acquired information to others), and using information (adoption, integration and generalization of knowledge) (Dibella, News & Goid, 1996).

Learning capability includes management practices that facilitate appropriate structures and procedures and encourage the learning of the organization (Goh, Elliott, & Quon, 2012). In recent years studies have showed that (Dibella, News & Goid, 1996; Lei, Michael & Richard, 1996; Goh, 1998; Garvin, 2013) learning is regarded from a strategic perspective within the resource-based theory and seen as a source for differentiation and competitive advantage for companies among their competitors.

In a learning organization, the main responsibility of management and the focus of management practices should be to create and encourage a climate that enables learning. The task of management is neither to be a crisis officer nor a controller or an institutional cheerleader. Organizations can encourage experience by creating a climate for open communication, developing constructive dialogue and facilitating experience processing. When management achieves this, employees share their commitment to learning (McGill & Slocum, 1993). Employees are encouraged to take calculated risks, to cope with ambiguity and to be innovative in a highly competitive environment. Leaders have a significant role in these kinds of structures. Leadership in a learning organization means that employees are encouraged to participate in the decision-making process. At the same time leaders are able to accept criticism and learn from it without being defensive in a learning organization. (Goh, 1998).

Mazutis & Slawinski (2007) emphasize that dialogue is the basis of organizational learning since individuals and groups are not able to exchange their ideas effectively and develop a shared understanding without dialogue. They also add that authentic leadership, a new field of research, can influence the nature

of dialogue within organizations. In this regard; relevant findings shape the proposition of this study which claims that there is a positive relation between authentic leadership and a firm's learning capability.

### **H1: Authentic leadership effects firm's learning capability positively**

Through several researches and studies on entrepreneurship, researchers approach to the issue from different perspectives. In this respect, the three widely used explanations that define entrepreneurship are listed below.

- 1) Initiation of a new business within an established organization
- 2) High-quality individuals or new product ideas
- 3) A philosophy that effects the appearance and operation of an organization as a whole

These definitions are not alternatives and can be found as different dimensions of entrepreneurial activity within a single organization. The first definition explains a "corporate venture" in which an established organization enters a new business. The second one, also known as "internal entrepreneurship", became popular by Pinchot (1985), that an individual represents an idea of a new product in an organization. The third one describes entrepreneurial philosophy, which influences the appearance and operation of all organizations, using concepts like entrepreneurial management, entrepreneurial stance, entrepreneurship orientation, entrepreneurship at firm level, initiative strategy making and pioneer innovative management (Covin & Miles, 1999).

Zahra, Abdel-Gawad, Svejnova and Sapienza (2011) define entrepreneurial capability as the ability to sense, select and coordinate internal and external sources in order to recognize opportunities and to benefit from them. In this sense entrepreneurship is included as a talent in a pool of dynamic skills. Entrepreneurship capability is shaped by the risk-taking activities of internal entrepreneurs'. The ability of internal entrepreneurs to interpret the opportunities and threats through the dimensions of entrepreneurial skills such as feeling, choosing, designing, and coordinating will expand the management's perspective and enable management to focus on difficult targets (Zahra, Abdel-Gawad, Svejnova, & Sapienza, 2011). According to resource based theory; entrepreneurial capability is regarded as a source of superior performance as per competitors and competitive advantage in the marketplace (Li, Huang, & Tsai, 2009). Risky actions are carried out by a strong leader in the process of establishing an entrepreneurial strategy and entrepreneurship is characterized by a central vision and strong leadership. (Özşahin, 2011).

At the level of individual leadership, there is growing evidence that a unique approach to leadership is desirable and effective in promoting individual initiative skills and achieving positive and lasting results within organizations (Walumbwa, Avolio, Gardner, Wernsing, & Peterson, 2008).

In order to establish an entrepreneurial organization, a business needs to create and maintain a culture in which managers and staff can act entrepreneurially and thus be rewarded. That is why the leadership style which assures managers and employees in managerial decision-making processes and encourages them in enhancing their links to relevant stakeholder circles is essential for an entrepreneurial organization. (Gibb, 1999).

### **H2: Authentic leadership effects firm's entrepreneurial capability positively**

### **2.3. Product Development Capability**

Brown and Eisenhardt (1995); review the innovation research in two broad fields of research. The first one is the economics-based tradition which analyzes innovation patterns across countries and industrial sectors, the development of technology over time and differences of companies among sectors in terms of innovativeness. The second one is the organization-based tradition that focuses on how to develop specific new products at micro level (Brown & Eisenhardt, 1995). The main issue here is products, structures and processes that individuals create at firm level.

Product development capability has been included in the dynamic capabilities group because of its effect on sustainable competitive advantage (Schilke, 2014). The significance of new product development has dramatically increased in recent years, and became the dominant factor in gaining competitive advantages in many industries. Over the last five years, more than 50% of annual revenues have been based on product development in industries such as automobile, biotechnology, consumer and industrial electronics, computer hardware, and pharmacy (Schilling & Hill, 1998).

A firm's survival and success depend on its capacity to innovate. Leadership is seen as a critical component of innovation success (Barczak & Wlemon, 1989). The importance of leadership factor will be understood better when product development process is regarded as a long-term work.

Despite the efforts to reduce delivery times, product development projects are usually very long-term initiatives. These projects entail great enthusiasm for team work since projects last at least 2 to 3 years, (Norrgrén & Schaller, 1999). Therefore, there is a great deal of responsibility for the leader who guides teams for successful new product development activities. McDonough & Barczak (1991) state that technological resources and leadership style influence the speed of new product development. However, leadership style is not specified in terms of effectiveness.

### **H3: Authentic leadership effects firm's product development capability positively.**

### **2.4. Firm Performance**

Performance is a subject covered in many different branches of management, including strategic management. It is an important matter of research for both academics and practitioners. While there are widely used solutions for management and improvement of organizational performance, the academia emphasize the conceptual basis, level of analysis and terminological issues for performance assessment. Although the importance of performance is widely known, the way that performance is addressed is perhaps one of the most challenging issues that today's academic researchers come across. (Venkatraman & Ramanujam, 1986).

Hart & Banbury (1994) describe performance as a multi-tiered structure including components of financial, operational, and organizational performance. Venkatraman and Ramnujam (1986) define performance as quantitative or qualitative assessment of all planned efforts and results achieved and they propose a two-dimensional model to assess firm performance. They also classify the first pillar of measurement criteria through financial (quantitative) and operational (qualitative) indicators and the second pillar as the primary and secondary resource scales based on the source of the information. Quantitative or qualitative; objective or subjective; primary or secondary metrics are preferred in accordance with the

purpose of a study (Özşahin, 2011). In this study, the financial performance of the company will be discussed through qualitative metrics.

Calantonea, Cavusgil, and Zhao, (2002)'s research reveals that learning capability positively effects firm performance. Another research conducted by Jyotsna Bhatnagar among 612 executives in India in 2014, determines that learning capability partially influences firm performance in a positive way. A study conducted by Goh and Elliott in 2012, a meta-analytic research, examines the relationship between learning capability and financial and non-financial performance, and displays a positive relationship between two types of performance and learning capability.

#### **H4: Learning capability effects firm performance positively**

Zahra and Covin (1995) state that entrepreneurship has a positive effect on firm performance. Similarly, in a study conducted by Yong-Hui Li, Jing-Wen Huang and Ming-Tien Tsai in 2008, it is revealed that entrepreneurship effects firm performance positively. Huges and Morgan's research in 2006 reveals that product development capability effects firm performance positively only through innovation and proactiveness dimensions. In this respect, there is little evidence that learning capability effects product development capability and business performance positively. In a study conducted by Kraus, Rigtering, Hughes, & Hosman in 2011, a significant and positive relation between productivity, a dimension of entrepreneurial capability, and business performance is confirmed. No significant relation between the other two dimensions, innovation and risk taking, is determined. In a study conducted by Wang (2008), it is revealed that learning capability moderates the relationship between entrepreneurship and firm performance.

#### **H5: Entrepreneurial capability effects firm performance positively.**

In a research, a meta-analysis, conducted by Rosenbusch, Brinckmann, & Bausch. in 2011, a positive relationship determined between innovation and business performance.

**H6: There is a positive relationship between new product development capability and firm performance.**

### 3. Research Method

#### 3.1. Research Model

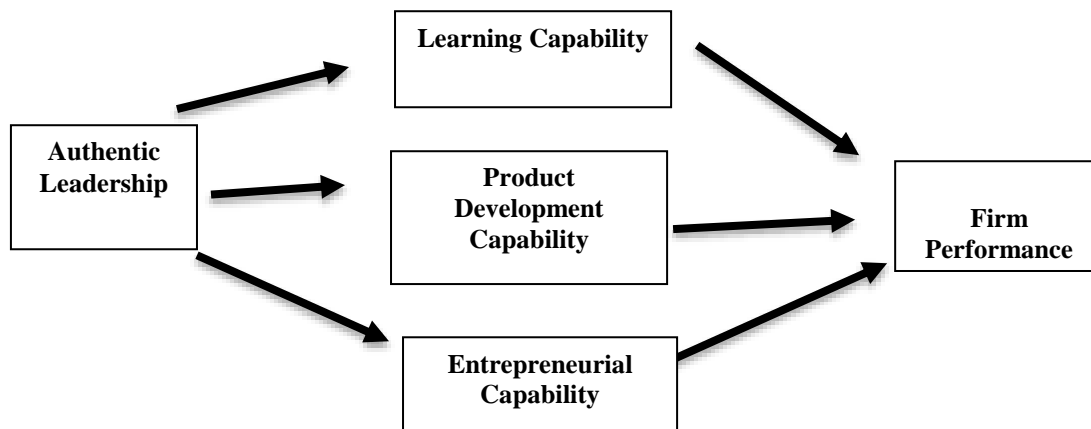


Figure 01. Research Model

### 4. Conclusion and Discussions

The study finds that business capabilities developed based on business resources are of great importance for firms in order to obtain sustainable competitive advantage. In this regard, while learning and entrepreneurial capability are defined as transformational abilities (Lado & Wilson, 1994) as the basic sources of sustainable competitive advantage; the product development capability is defined as a component of dynamic abilities (Schilke, 2014).

According to the literature research, the study reveals that leadership, particularly the authentic leadership, is a significant factor in development of business capabilities, which is the main determinant of competitive superiority. In this context, the study states that authentic leadership has a positive influence on the firm's learning capability. (Goh, 1998; Mazutis, & Slawinski, 2007). Accordingly, there are several studies that assert the positive effect of leadership on entrepreneurial capability (Gibb, 1999; Walumbwa, Avolio, Gardner, Wernsing, & Peterson, 2008).

Researches indicate that leadership has a significant effect on improving product development capability (Barczak & Wlemon, 1989; Norrgren & Schaller, 1999). However, a certain leadership style is not specified in terms of its effectiveness. (McDonough & Barczak, 1991).

Additionally, it is stated that learning (Calantonea, Cavusgil, & Zhao, 2002; Goh & Elliott, 2012; Bhatnagar, 2006), entrepreneurship (Zahra & Covin, 1995; Huges & Morgan, 2006; Li, Huang, & Tsai, 2009) and product development capabilities (Rosenbusch, Brinckmann, & Bausch., 2011), which are considered as business skills, effect firm performance positively.

Authentic leadership style is crucial for improvement of business skills, which are the main determinants of sustainable competitive advantage. For this reason, there is a need for more research on relation between authentic leadership and organizational capabilities.

In this context; further research on authentic leadership and its determinants within an organization would contribute to the strategic management literature and the business world as well. Shifting researches to different industries will not only allow comparison between the sectors but also increase the validity of the studies.

## References

- Amit R. & Schoemaker, P. J. H. (1993). Strategic Assets and Organizational Rent. *Strategic Management Journal*, 14, (1), pp. 33-46.
- Avolio, B. J., & Gardner, W. L. (2005). Authentic leadership development: Getting to the root of positive forms of leadership. *Leadership Quarterly*, 16,(3), 315–338.
- Barney, J. B., & Clark, D. N. (2007). Resource-Based Theory: Creating and Sustaining Competitive Advantage. *Oxford University Press*, 1-327.
- Barczak, G. and Wilemon, D. (1989). 'Leadership differences in new product development teams', *Journal of Product Innovation Management*,. 6, pp.259–267.
- Bhatnagar, J. (2006). Measuring organizational learning capability in Indian managers and establishing firm performance linkage. *Management Development Institute*, 13, (5), 416–433.
- Brown S. L. & Eisenhardt K., (1995). Stanford University, Product Development: Past Research, Present Findings and Future Directions, *Academy of Management Review*, 20(2), 343-378.
- Calantonea, R. J., Cavusgil, S. T., & Zhao, Y. (2002). Learning orientation, firm innovation capability, and firm performance, *Industrial Marketing Management* 515–524.
- Covin, J. O., & Miles, M. P. (1999). Corporate Entrepreneurship and the Pursuit of Competitive Advantage. *Entrepreneurship: Theory & Practice*, 23(3), 47–63.
- Dibella, A. J., News, E. C., & Gouid, J. M. (1996). Understanding Organizational Learning Capability. *Journal of Manapment Studies*, 361–379.
- Garvin D. A. (2013). Building A Learning Organization, *Harvard Business Review*,1-15
- George B., & Sims P. (2007), *True North*, 1-290.
- Gibb, A.A. (1999). 'Can we build 'Effective' Entrepreneurship through Management Development?' *Journal of General Management*. 24(4), pp 1-22.
- Goh, S. C. (1998). Toward a learning organization: The strategic building blocks. *Advanced Management Journal*, 63(2), 15–22.
- Goh, S. C., Elliott, C., & Quon, T. K. (2012). The relationship between learning capability and organizational performance. *The Learning Organization*, 19(2), 92–108.
- Goh, S., & Richards, G. (1997). Benchmarking the learning capability of organizations. *European Management Journal*, 15(5), 575–583.
- Grant, R. M. (1996). Prospering as in Integration Environments : Organizational Capability
- Huges, M, H. P. & Morgan, E. R. (2006), Exploitative Learning And Entrepreneurial Orientation Alignment In Emerging Young Firms: Implications For Market And Response Performance, *British Journal of Management*,1-36
- Hart, S. & Banbury, C. (1994). How Strategy-Making Processes Can Make A Difference, *Strategic Management Journal*,251-269
- Karagozoglu, N. & Brown Warren B. (1993). Time-Based Management of the New Product Development Process, *J Prod Innov Manag*, 204-215
- Kor, Y. Y., & Mahoney, J. T. (2004). Edith Penrose' s (1959) Contributions to the Resource-based View of Strategic Management. *Journal of Management Studies*, 41(1), 183–191.
- Kraus, S., Rigtering, J. P. C., Hughes, M., & Hosman, V. (2012). Entrepreneurial orientation and the business performance of SMEs: a quantitative study from the Netherlands. *Review of Managerial Science*, 6(2), 161–182.
- Lado, A., & Wilson, M. C., (1994). Human Resource Systems and Sustained Competitive Advantage : a Competency-Based Perspective, *Academy of Management Review*, 19(4), 699–727.
- Lei, D., Michael, H. A., & Richard, B. (1996). Dynamic Core Competences through Meta-Learning and Strategic Context. *Journal Of Management*, 549-569
- Li, Y. H., Huang, J. W., & Tsai, M. T. (2009). Entrepreneurial orientation and firm performance: The role of knowledge creation process. *Industrial Marketing Management*, 38(4), 440–449.
- Lumpkin, G. T., & Dess, G. G. (1996). Clarifying the entrepreneurial orientation construct and linking it to performance. *Academy of Management Review*, 21(1), 135–172.
- McGill, M. E., & Slocum J., W., (1993). *Unlearning The Organization*. 21(1), 67–79.



- McGill, M. E., Slocum J. W. & Lei D., (1992). Management Practices in Learning Organizations. *Organizational Dynamics*, 21(1), 4–17.
- Mazutis, D. A., & Slawinski, N. A. (2007). The art of conversation: how authentic leaders influence organizational learning. *Proceedings of OLKC*, (2004), 662–675.
- McDonough & Barczak (1991). Speeding up new product development - The effects of leadership style and source of technology. *J Prod Innov Manag*, 203-211
- Miller, D., (1983), The Correlates of Entrepreneurship in Three Types of Firms, *Management Science*, 29,(7), 770-791.
- Norrgrén, F., & Schaller, J. (1999). Leadership style: its impact on cross-functional product development. *Journal of Product Innovation Management*, 16(4), 377–384.
- Özşahin, M., (2011). Yüksek Performanslı İşletmelerde Liderlik ,Rekabetçi Kültür ve Performans İlişkisi, Gebze Yüksek Teknoloji Enstitüsü
- Pinchot, G. (1985). Intrapreneuring: why you don't have to leave the corporation to become an entrepreneur, New York: Harper and Row.
- Rosenbusch, N., Brinckmann, J., & Bausch, A. (2011). Innovation Always Beneficial ? A Meta-Analysis of The Relationship Between Innovation And Performance in Smes . *Journal of Business Venturing*, 26, (4), 441-457
- Schilke, O. (2014), On The Contingent Value Of Dynamic Capabilities For Competitive Advantage: The Nonlinear Moderating Effect Of Environmental Dynamism, *Strategic Management Journal*, 179–203
- Schilling, M., & Hill, C. (1998). Managing the new product development process: strategic imperatives. *The Academy of Management Executive*, 12(3), 67–81.
- Senge, P. M. (1990). The Leaders New Work : Building Learning Organizations. *Sloan Management Review*, 1-17.
- Venkatraman, N. & Ramanujam V. (1986), Measurement of Business Performance in Strategy Research: A Comparison of Approaches, *Academy Of Management Review*,11, (4), 801-814
- Walumbwa, F. O., Avolio, B. J., Gardner, W. L., Wernsing, T. S., & Peterson, S. J. (2008). Authentic leadership: Development and validation of a theory-based measure. *Journal of Management*, 34(1), 89–126.
- Wang, C. L. (2008). Entrepreneurial orientation, learning orientation, and firm performance. *Entrepreneurship: Theory and Practice*, 32 (4), 635–657.
- Wernerfelt, B. (1984). A Resource based view of the firm. *Strategic Management Journal*, 5, (2). (Apr. - Jun., 1984), pp. 171-180.
- Yu, B., Hao, S., Ahlstrom, D., Si, S., & Liang, D. (2014). Entrepreneurial firms' network competence, technological capability, and new product development performance. *Asia Pacific Journal of Management*, 31(3), 687–704.
- Zahra, S. A., & Covin, J. G. (1995). Contextual Influences Entrepreneurship- Performance Relationship : A Longitudinal Analysis, *Journal of Business Venturing*, 43–58.
- Zahra, S. A., Abdel-Gawad, S., Svejenova, S., & Sapienza, H. J. (2011). Entrepreneurial capability: Opportunity pursuit and game changing. *DRUID Conference on Innovation, Strategy, and Structure—Organizations, Institutions, Systems and Regions at Copenhagen Business School*, 1–39.
- Zahra, S. A., Jennings, D. F., & Kuratko, D. F., (1999), The Antecedents and Consequences of Firm-Level Entrepreneurship: *The State of the Field*, Baylor University, p.45-65.