THE INFLUENCE OF TRANSFORMATIONAL LEADERSHIP, BUSINESS STRATEGY, AND ORGANIZATION INNOVATION ON BUSINESS PERFORMANCE IN THE THAI AUTOMOTIVE PARTS INDUSTRY

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ABSTRACT

Small and Medium Enterprises (*SMEs*) *are the foundation of the Thai economy and act as a major source of employment and operations for large enterprises. This research investigates the factors affecting the development of a strategic management model for SMEs in the Thai automotive parts industry. The population consisted of SME entrepreneurs in the automotive parts industry in Thailand.* A *questionnaire was used to collect data using purposive sampling techniques in combination with secondary data from published reports. Structural equation modeling was applied to analyze the strategic management model of small and medium enterprises in the* Thai *automotive parts industry. The results* indicate that *transformational leadership factors have a significant direct influence on business strategy and organization innovation. Moreover, transformational leadership has an indirect influence on business performance through business strategy and organizational innovation. The research findings support sustainable growth under the present competitive conditions within the Thai automotive parts industry.*

Keywords: Transformational Leadership, Business Strategies, Organizational Innovation, Business Performance, Automotive Parts Industry.

INTRODUCTION

Thai SMEs have transformed and developed according to Thailand's national development and the changing global economy (Office of Small and Medium Enterprises Promotion, 2017). The focus of this transformation has been to ensure that Thai SMEs are strong and ready to deal with all types of issues and challenges. Currently, Thai SMEs in the automotive industry should prepare their management and strategy to improve their performance and gain competitive advantages among global competitors. Under these circumstances, the leadership style of management teams should be considered to improve business performance. Chief Executive Officers (CEO) who adopt a transformational leadership style has been found to be related to firm performance (Jensen et al., 2020). This leadership style is crucial and much academic scholarly attention has been paid to investigating this paradigm of effective management (Dinh et al., 2014; Northouse, 2018). The concept of transformational leadership style offers a conceptual foundation for academic research and practice into its relationship with

corporate performance (Siangchokyoo et al., 2020). In addition, transformational leadership business strategies are found to motivate and encourage followers while also helping organizations to innovate and support customer needs (Bass & Riggio, 2006). Moreover, business strategy contributes to the sustainability of firms. In particular, there is a significant relationship between strategy and firm performance within the manufacturing industry due to its capability of conveying product and service quality to customers (William et al., 1995). Within the automotive industry, innovation is considered crucial to achieving operational competitive advantages. Two developments in the East Asian automotive industry concerning energy-efficient innovations and the role of national innovation systems have encouraged automotive firms to develop their innovation capabilities to enhance company performance (Bartnik et al., 2018). Automakers have invested heavily in alternative fuel technologies. However, few studies have investigated collaboration between SME suppliers, despite the potential for SME innovations to affect performance (Potter & Graham, 2019). The present study therefore explores this research gap by undertaking empirical research between transformational leadership style, business strategy, and organizational innovation with business performance.

Research Objectives

1. To study the influence of transformational leadership on business strategy and organizational innovation.
2. To study the influence of business strategy on business performance.
3. To study the influence of organizational innovation on business performance.

LITERATURE REVIEWS

Transformational leadership (TL)

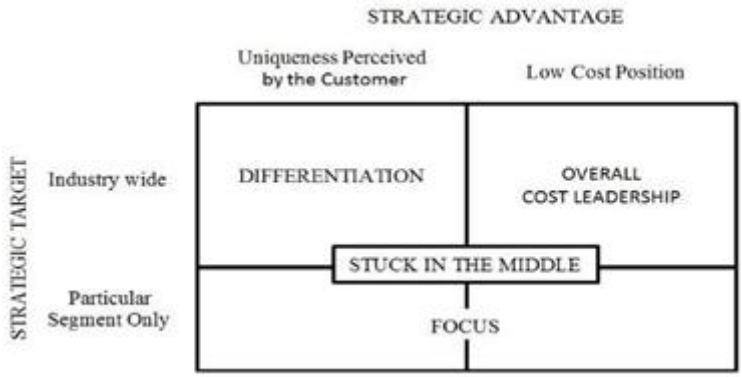
Transformational leadership has been argued to be appropriate for enhancing the growth of SME operations (Bass & Avolio, 1993). Transformational leadership also has an indirect positive influence on SME performance by innovative leaders being able to motivate and encourage followers to use their own creativity and innovation to meet customer needs (Bass & Riggio, 2006).

Numerous researchers are interested in transformational leadership, which is crucial to effectively developing organizations, which motivate and inspire employees who can perceive the organization's vision and share its values and culture. In doing so, the organization will be able to achieve its goals and objectives (Moorhead & Griffin, 2006). Moreover, transformational leaders' behavior will motivate employees to achieve their goals beyond expectations (Long and Lee, 2011). Furthermore, the transformational leader will develop followers on account of trust among the organizational members (Gillespie & Mann, 2004). Transformational leadership theory is concerned with leader behaviors in terms of contributing to the organizational dynamic. The actions of leaders can influence and inspire their followers to perform at full capacity. Transformational leadership characteristics include: influencing members' ideas; inspiration and motivation; intellectual stimulation; and individualized consideration; creating a strategic vision; communicating with a vision; and setting a good example for employees.

Business Strategy (BS)

There are three competitive strategies, namely cost leadership strategy, differentiation

strategy, and focus strategy which are key to achieving competitive advantages and improving organizational performance (Porter & Millar, 1985). The present paper focuses on the cost leadership strategy since it is one of the commonly used strategy dimensions in the literature (Figure 1).



Source**:** Wikipedia, the free encyclopedia 2019

FIGURE 1
MICHAEL PORTER'S THREE GENERIC STRATEGIES

Organizational Innovation (OI)

Schumpeter (1912) broadened and developed the conceptual approach to innovation. According to Schumpeter (1934), the conceptual approach to innovation is the act of innovating and creating processes, which promote disruption to the economic system while allowing for the emergence of novelty. Product and service innovations address the source of change which creates competitive advantages (Jonash & Sommerlatte, 1999). Moreover, changes to an organization's products and services are directly related to product or service innovations. Further, process innovation is crucial to improving production process efficiency and effectiveness (Higgins, 1995). The process innovation includes alterations to how products and services are created and delivered to customers. Process innovation is defined as the implementation of new or significantly improved methods of production or delivery (Oslo Manual, 2005), a part of which are significant changes to techniques and equipment. Moreover, process innovation even anticipates reduced production or distribution costs in order to improve product quality and distribution (OECD, 2005).

Business Performance

The firm growth perspective suggests that the sources of advice and types of information used by SMEs are functions of the firm's growth and maturity. For example, founders of new firms, who may lack the knowledge and resources necessary to grow their business, will often turn to external sources for advice (Smeltzer, 1991). Accountants, lawyers, and bankers are common options since bookkeeping, legal, insurance, and financial knowledge, as well as understanding of legal and statutory requirements may be capabilities that the new firm does not possess (Dyer & Ross, 2008). As a firm matures, owners tend to favor more specialized business information (McGee & Sawyerr, 2003), and may seek advice and information related to marketplace decisions on product quality, product lines, and pricing (Pineda et al., 1998).

To achieve in competitive marketplaces, business owners must start by determining the level of profitability. The ratio to measure company performance is profitability and is the primary feature in company financial reports. Profitability reflects a company's capacity to generate earnings within a certain period at a rate of sales, assets, and certain capital stock. Understanding the major determinants of profitability is the key factor which helps managers to develop a profitability strategy for the company (Gitman & Zutter, 2012).

Relationship between Transformational Leadership, Business Unit Strategy, and Organizational Innovation

Transformational leadership is currently the most utilized perspective leadership style in management practice (Lord et al., 2017). Transformational leadership is composed of idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration (Avolio et al., 1999; Bass, 1985). First, idealized influence can be explained as leaders who energize followers and provide them with a sense of purpose. Inspirational motivation is related to providing followers with a sense of challenges to improve their work results. Intellectual stimulation refers to leader behaviors, which support followers to find common ways of solving problems. Finally, individualized consideration involves leaders who understand individual needs, which contribute to the followers' work potential. When considering transformational leadership related to SMEs performance, leaders motivate and encourage their followers to use their creativity and innovation skills in response to customer needs (Bass & Riggio, 2006). Significantly, supporting employee creativity affects organizational competency (Shin & Zhou, 2003). Such competency can be determined in terms of innovation, differentiation, and low cost which contribute to different business performance metrics (Menguc et al., 2007). A firm's innovation capabilities are subsequently related to the overall business strategy which can affect the firm's performance and add value for shareholders (Siegel & Vitaliano, 2007). Moreover, firms must align their business model with their strategy to support performance (Ben Romdhane Ladib & Lakhal, 2015). Such alignment can be applied by implication of information system, which related to business performance (Dong et al., 2008). Furthermore, firms can further innovate their products and services they provide to customers by integrating sustainability with the overall strategy which is related to the transformational leadership style (Bocquet et al., 2013).

Product innovation may involve the development of new components and technologies to create new products (Prajogo, 2016). Other types of innovation can include process innovation which is related to improving production processes and typically occurs within the firm's operation process (Reichstein & Salter, 2006). Innovation as a competitive strategy are effective in improving environment, but may not be effective in other environments (Prajogo, 2016). Crucially, performance can be derived from the interaction between the external environment and a firm's innovation strategy (Kerin et al., 1992). From the aforementioned literature review, the following hypotheses were postulated:

H_1 *Transformational leadership has a direct influence on business strategy*.

H_2 *Transformational leadership has a direct influence on organizational innovation*.

H_3 *Business strategy has a direct influence on business performance*.

H_4 *Organizational innovation has a direct on business performance*.

RESEARCH MODEL

The present study sought to investigate the influence of transformational leadership (TL) on business strategy (BS) and organizational innovation (OI) among Thai SMEs in the automotive parts industry (Figure 2). The variables were divided into three categories. The first category, Transformational Leadership, included four variables: (1) idealized influence; (2) inspiration motivation; (3) intellectual stimulation; and (4) individualistic consideration. Second, Business performance was the main outcome variable and was specified as non-financial performance, including growth and profitability. Third, the conceptual framework also had a mediating variable, including cost leadership and differentiation, focus, and organizational innovation involving product innovation and process innovation.

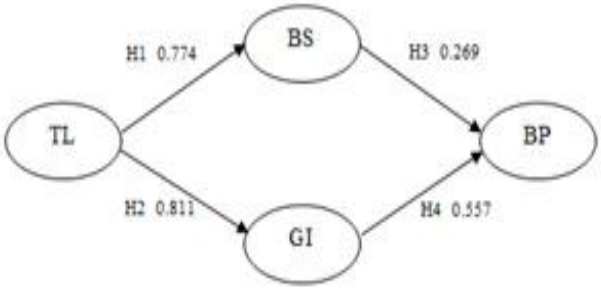


FIGURE 2
BUSINESS PERFORMANCE MODEL

Sample and Data Collection

The research population included top management at 1,820 companies belonging to the Thai Automobile Parts Association. A sample size of 300 top management individuals was determined using the criteria of Hair, Black, Babin and Anderson (2010), who specified that the ratio between the number of samples and the number of parameters should between 200 - 300cases to be sufficient for structural equation modelling (SME). The sample top management individuals were randomly selected with equal area representation using the simple random method. A total of 300 completed questionnaires were collected.

The scale to measure the transformational leadership questionnaire was adapted from the 20 items described by Bass & Riggio (2006). The other 15 items in the business strategy questionnaire were adapted from (Pette et al., 2008). In addition, the organizational innovation questions were adapted from (Bessant & Tidd, 2007). Meanwhile, the final 20 items in relation to business performance were adapted from (Matzler et al., 2008). The questionnaire utilized a 7-point Likert scale, from the least strongly (1) to the most strongly (7).

The AMOS program was used to test degree of congruence of the variables in the conceptual model.

Validity and Reliability Measurement

To assess the accuracy of the content, five experts within the fields of business, management, industry, leadership, and human resource development were recruited to test, rate, and examine all the measures. The five experts certified all the items for content validity. Item

validation results questionnaires were appropriate since they are consistent with the objectives of the research questions. The questionnaire quality was tested for reliability using Cronbach's alpha coefficient. Transformational leadership achieved the highest internal consistency level (0.98), followed by business performance (95.0), organizational innovation (94.0), and business strategy (93.0).

Scale verification was based on the concept of (Fornell & Larcker, 1981). Confirmatory factor analysis was applied to test whether the structural validity of each variable in the model was true, based on empirical evidence of the theory and concepts. Statistical consistency was determined by Chi-square (χ2), chi-square/degrees of freedom (χ2/df), goodness of fit index (GFI), and root mean square error of approximation (RMSEA) (Byrne, 2001). Table 1 shows the effectiveness of the composition from the loading values of standard factors for each item or observed variable. All the questions significantly correlated with structural theory because of the large factor loadings (> 0.50) with significance values at p <0.01 (Table 1).

Composite reliability (CR) and average extraction difference (AVE) were calculated following the construction reliability test of (Fornell & Larcker, 1981) to verify the final measurement model. From Table 1, all the CR scores were above 0.60, while all the AVEs were greater than 0.50 (AVE> 0.50). Therefore, the measured convergence accuracy was sufficient for the measurement model and all the theoretical structures had acceptable psychological properties.

Table 1
CONFIRMATORY FACTOR ANALYSIS

Item	Standardized factor loading	t-value	AVE and composite reliability (α)
Transformational leadership (TL) Model fit indices: χ^2 = 0.846, df = 1.000, p - value = 0.358, RMSEA = 0.000, χ^2/ df = 0.8465, GFI = 0.999			
Ideological influence	0.927	0.859	CR = 0.964 AVE = 0.871
Inspiration motivation	0.938	0.880	
Intellectual stimulation	0.941	0.885	
Individualized consideration	0.928	0.861	
Business strategy (BS) Model fit indices: χ^2 = 0.000, df = 1.000, p - value = 0.999, RMSEA = 0.000, χ^2/ df = 0.000, GFI = 0.000			
Cost leadership	0.857	0.735	CR = 0.890 AVE = 0.730
Differentiation	0.888	0.788	
Focus	0.816	0.666	
Model 1: Organizational innovation (OI) Model fit indices: χ^2 = 0.390, df = 1.000, p - value = 0.532, RMSEA = 0.000, χ^2/ df = 0.390, GFI = 0.999			
Product innovation	0.732	0.537	CR = 0.644 AVE = 0.476
Process innovation	0.645	0.416	
Business Performance (BP) Model fit indicesχ^2 = 1.195, df = 1.000, p - value = 0.274, RMSEA = 0.026, χ^2/ df = 1.195, GFI = 0.996			
Growth	0.828	0.685	CR = 0.902 AVE = 0.823
Profitability	0.980	0.961	

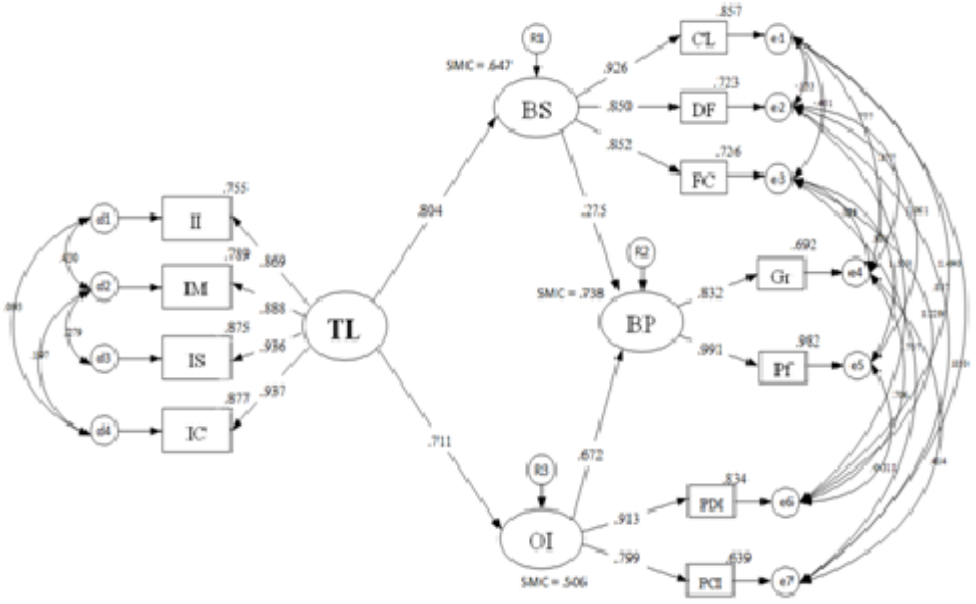
RESULTS

From the transformational leadership factors in Table 2, the variables used in all four measurements averaged between 5.60 - 5.74. Meanwhile, the variance of all transformational leadership factors were found to be between 0.93 -1.01. The business strategy factors showed

that the variables used in all three measurements averaged between 5.48 - 5.58. For level of awareness was making a difference when considering that the variance of all business strategy factors were between 0.99 - 1.02. The organizational innovation results indicate that the variables used for both measurements were 5.42 and 5.43 when considering the variance of business strategy at 1.11 and 1.13. Furthermore, the business performance factors found that the variable measurements were 5.25 and 5.38, with variance of business strategy at 1.01 and 1.13.

Table 2
STATISTICAL INFORMATION

Variables	Mean	S.D.	Min	Max	Var	Meaning
Transformational Leadership						
Ideological influence	5.74	1.01	2.40	7.00	1.02	Very important
Inspiration motivation	5.74	1.01	2.40	7.00	1.02	Very important
Intellectual stimulation	5.60	0.93	2.60	7.00	0.87	Very important
Individualized consideration	5.73	0.99	2.00	7.00	0.98	Very important
Business Strategy						
Cost leadership	5.54	0.99	2.00	7.00	0.99	Very important
Differentiation	5.48	1.01	2.00	7.00	1.02	Very important
Focus	5.58	0.98	2.00	7.00	0.96	Very important
Organizational Innovation						
Product innovation	5.43	1.11	1.60	7.00	1.24	Very important
Process innovation	5.42	1.13	1.80	7.00	1.28	Very important
Business Performance						
Growth	5.38	1.01	1.20	7.00	1.03	Very important
Profitability	5.25	1.13	1.00	7.00	1.28	Very important



Note: $\chi^2 = 7.859$, df = 14, *p* - value = 0.897, RMSEA = 0.000, χ^2/ df = 0.561, GFI = 0.995.

FIGURE 3
COEFFICIENT OF PREDICTION

Figure 3 depicts the SEM of transformational leadership, which influence business strategy, organizational innovation, and business performance, with the χ^2 statistic of 7.859, degree of freedom of 14, *p*-value of 0.897, goodness of fit index of 0.995, and root mean square error of approximation of 0.000. In Figure 3, transformational leadership significantly and directly influenced business strategy (β = 804.0, p = 001.0), while it also directly influenced organizational innovation (β = 711.0, p = 001.0), thus confirming hypotheses H1 and H2. Moreover, business strategy significantly and directly influenced business performance with statistical significance (β = 275.0, p = 001.0), confirming hypothesis H3. Further, it is found that organizational innovation significantly and directly influenced business performance with statistically significance (β = 672.0, p = 001.0), confirming hypothesis H4.

In terms of the coefficient of prediction (R^2), the likelihood that transformational leadership factors collectively contribute to the business strategy is as high as 64.70 percent (R^2 = 0.647) and organizational innovation organization is 50.60 percent (R^2 = 0.506). Meanwhile, business strategy and organizational innovation organization can predict business performance as high as 73.80 percent (R^2 = 0.738), as illustrated in Figure 3.

Table 3
MODIFIED HYPOTHESIS MODEL

Factor	Business Strategy (BS)			Organizational Innovation (OI)			Business Performance (PM)		
	DE	IE	TE	DE	IE	TE	DE	IE	TE
TL	0.804		0.804	0.711		0.711		0.699	0.699
OI							0.672		0.672
BS							0.275		0.275

In Table 3 outlines the influence of transformational leadership, business strategy and, organizational innovation factors on business performance of small and medium-sized enterprises in the Thai automotive parts manufacturer industry. It is found that transformational leadership has a statistical significant influence on business strategy (β = 804.0, p = 001.0) and statistical significant influence on organization innovation (β = 711.0, p = 001.0). Meanwhile, it is found that organizational innovation continued to have an influence on business performance, with statistical significance (β = 672.0, p = 0.001). In addition, business strategy influenced business performance with statistical significance (β = 275.0, p =0 .001).

DISCUSSION

Transformational leadership has a direct influence on business strategy. When business conditions are focused on producing quality products for customers, on-time delivery of products for specific customer groups and business strategies must take care of the customers and provide credibility for the delivered products. Subsequently, being a leader of change requires building faith and confidence in collaboration with the organization to achieve its goals and assign tasks to be responsible according to the employees' abilities. Moreover, employees should be encouraged to develop themselves, which helps them to feel motivated and recognize the goals of common development through knowledge, expertise, skills, and valuable work experience, which will affect the organization's strategy. All the components of change leadership are found to have a profound impact on business strategies since they must face the context and economic situation that an organization requires to grow and effectively compete to have the most satisfied customers.

Transformational leadership has a direct influence on organizational innovation. Change

leadership has a direct influence on organizational innovation because change leadership has an organizational management paradigm to create competitive advantages from the present economic context. The Thai automotive parts industry is growing and stimulates the ASEAN regional and global economy. In the context of globalization, businesses must drive technology and innovation, meaning that innovation is crucial and necessary for business survival. Encouraging and supporting employees to develop and enhance their skills is therefore also important. Quality production processes can be promoted by creating process innovations and utilizing modern tools and technology to accelerate production processes. The result mentioned that transformational leadership has an indirect positive effect on SME performance through organizational innovation.

Business strategy has a direct influence on business performance. The future of the automotive parts industry in Thailand may be affected by global economic changes and national economic policy which promotes the production of electric vehicles. Organizations should therefore take effective action for long-term sustainability. Additionally, having strong leadership and changing business strategies is another key factor for successful business management and good business performance. Organizational performance in terms of growth and long-term profitability will help ensure a sustainable competitive arena. Strategies should focus on niche customers, caring for existing customers by producing quality products and delivering on time, and respond and find ways to meet customer needs to provide satisfaction and confidence in the production process. According to the theory of Porter (1990), creating excellent value products for customers is beneficial to organization which provides the organization with a competitive advantage (Porter, 1990). Organizations should create different types of products and services in the market, have a high income, and have lower operating costs than their competitors.

Organizational innovation has a direct influence on business performance. Changes by using efficiency to drive business innovation, operators in the automotive parts industry must change their operations to match current conditions. Both internally and externally, affecting business growth, which operators must have a management strategy; better than competitors, adjust to keep up with the competition situation. However, innovation is the primary mechanism since it is able to create sustainable economic growth. Corporate management use of innovations can enable organizations to develop quality products and services more quickly and result in better corporate performance (Hidalgo et al., 2008). The findings are consistent with the results of (Habidin et al., 2015) which found that in the healthcare industry, organizational innovation can improve understanding and identify opportunities for improvements in the processes of implementing process innovations in order to enhance organizational performance.

IMPLICATIONS

Theoretical Implications

From the structural model of the validation equation to the relation model, it corresponds to the theoretical concepts. The results of the previous study indicate that the factors are useful and have a good performance in the performance of the organization. This model is able to analyze and examine the organization's management. Leadership, change, business strategy, and organizational innovation all contribute to identifying effective efficiency. Meanwhile, the model is also able to explain and advise entrepreneurs, executives, academics, or those interested in managing an organization through leadership, change, innovation, and developing business

strategies. In the application of theory, care should be taken to explain the phenomena of management for the organization's operations in various dimensions, since it could result in misunderstandings or misuse in the event that a business failure can occur. Therefore, explaining the results of each factor should be clearly explained in order to properly understand the situation, context, and policies of different organizations.

Practical Implications

The implementation of the findings of the present study based on developing a strategic management model for small and medium-sized enterprises in the Thai automotive parts industry should be cognizant of the following aspects.

1. Set a vision and management policy which is appropriate for the present economic conditions in which the business can survive. Leaders can convey the organization's goals so that employees are aware and understand this vision.
2. Promote and support employees to continuously study, train, and develop. They should be able to create product innovations, processes that add to customer satisfaction, focus on developments which are beneficial to the organization, and cultivate a culture of knowledge transfer between all levels of employees.
3. Policies should be set in practice create love, unity, and an atmosphere within the organization for employees to participate in all activities.
4. Business executives should understand organizational management practices by using the business strategy as the main policy to manage organizational performance.

RESEARCH LIMITATIONS

The limitation of this study is the subjects come from automotive parts industry alone. The practitioners should be aware of applying to management of firms in other industry that may have some difference. In addition, the different in culture determining from both national and organizational level. Moreover, Bass's MLQ was conducted from multiple sources, including the managers themselves, subordinates of managers, supervisors of managers, and colleagues of managers who sent results which provided more reliable data. Therefore, this difference should be considered in practice. Moreover, researchers use quantitative research to collect data using questionnaires as a research tool and in-depth interviews with small and medium-sized enterprises in the Thai manufacturing industry by selecting only the Manufacturers Association Auto parts do not include all businesses of industrial auto parts manufacturers in Thailand. Those using the results of the present study to implement policies should therefore consider this limitation. Future researcher should determine to focus on specific type of business strategy such as differentiation that may have an impact on innovation of firms.

FUTURE RESEARCH

1. Further research should study other variables that may be related to the efficiency management of small and medium-sized enterprises in the automotive parts industry to guide the modeling process, so this model should be developed and further study.
2. There should be a study of leadership in other forms that may affect the performance of small and medium-sized enterprises, including the organization culture that is hindering work because this factor can improve the management system. To be effective and help businesses grow and survive in an ever-changing economy with high competition.

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