

TRANSFORMATION AND TRANSACTIONAL LEADERSHIP FOR GAINING COMPETITIVE ADVANTAGE: MEDIATING ROLE OF EMPLOYEE CREATIVITY

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Abstract: *Gaining competitive advantage is critical especially for the public service organizations. Several researchers are argued over competitive advantage with various aspects; however, employee creativity has gained relatively lesser attention by the researchers. Therefore, the purpose of the current study is to identify the mediating role of employee creativity between transformational and transactional leadership role and competitive advantage. In order to meet the objectives of the study initially the literature has been reviewed. Based on the reviewed literature, quantitative research methodology has been adopted to conduct this causal study. The data has been collected using the previously developed instruments, reliability and validity of the instruments was ensured. The sample of 323 respondents was used to conduct structural equation modeling. The respondents were the employees of housing department of Sharjah. The findings confirmed the theoretical framework developed on the basis of reviewed literature and theoretical support of competitive advantage theory, situational leadership theory, and enterprise creativity theory. The results revealed that employee creativity holds a significant mediating influence between the meaningful relationship of transformational leadership and competitive advantage along with transactional leadership and competitive advantage. At the end of the study a few limitations and future recommendations are also mentioned with significance of the study.*

Keywords: *transformational leadership, transactional leadership, employee creativity, competitive advantage.*

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1. Introduction

Developing competitive advantage requires planning and coordination. Competitive advantage is achieved by focusing primarily on the abilities to gain progressive returns. Competitive advantage is significant as it makes the investment worth for the time and resources that the institutions utilize. Creativity of employees is a critical factor which provides competitive advantage and leadership behavior plays a significant role in achieving the same. Creativity potential is highly influenced by the leadership behavior. Leadership style is a social influence or process in which voluntary participation of employees helps organizations in approaching their goals. Leadership delegates power and influence

others to act necessary to reach organizational objectives . In the current era the supply chain for all the sectors is being digitalized especially for public services .

Now a days organizations have to compete in faster moving and competitive economic scenario, generally, now the managers have to take business decisions accurately because a minor mistake may have significant impact over performance . Because producing business process effectively is highly dependent over creative solutions which are dependent over knowledge management . Thus, creative solutions are more dependent over systems reliability and availability along with human resource willingness towards the provision of services . However, the major issue is that majority of the organizations are hardly aware of critical importance of the competitive advantage of their operations and internal affairs .

For gaining success in the competitive era attainment of competitive advantage is necessary for survival and growth . The institutions in the United Arab Emirates should compete, respond, and must manage their procedures for advancement with the help of technology same like new industrial 4.0 technologies . However, inopportunately, hardly entities are aware of the importance of networking strategies and the associated individuals are hardly seeking benefits for their entities. The UAE government considering the importance of strategic planning shed light on framework for city planning that comprises of four sectors which are formed to assist Executive Council .

Contemporary, leaders regardless of local or expatriates, in UAE government institutions try to collaborate, these are transformational necessities and features of good governance . Therefore, implicitly along with unconsciously the leaders have imposed the same considering it core for the improvement of public services for gaining competitive advantage . UAE among the Gulf Council Countries is more prone towards adoption of innovation which can be seen in their ranking as UAE is ranked 38th in innovation among the entire globe which is highly because of the creativity of the employees.

Furthermore, the government of UAE has also presented several lucrative practices in its National Innovation Strategy of 2015 for generation and adoption of new innovative ideas for the improvement in domestic services and innovation practices for gaining competitive advantage . Furthermore, to be more sustainable UAE has introduced innovation in seven areas: renewable energy, transportation, education, health, technology, water, and a space programme . Success and progress of all those initiatives was highly dependent over leadership styles.

Hence, leadership style is the core for influencing individual as well as organizational measures such as performance, behaviour, and creativity positively . However, leadership style has been studied with reference to employee commitment and employee turnover, whereas employee creativity and competitive advantage have gained less attention. Various leadership styles have different influences over performance and creativity of the employees . Hence, it is crucial to understand the most influential styles of leadership over development of creativity among employees for gaining competitive advantage.

Therefore, the current study is an attempt to find the impact of two most used leadership styles for developing creativity among employees with an objective of gaining competitive advantage in Housing department of Sharjah-UAE.

The research is significant not only from theoretical perspective but especially the managerial perspective. The research unveil the leadership characteristics that are important for the development of creativity among employees in the housing sector. The findings will also guide the policy makers to stress more over creativity of employees to gain competitive advantage in the public services sector.

The rest of the paper is organized as follows. Initially the literature review has been conducted regarding gaining of competitive advantage for the public sector entities, followed by the literature on transformational and transactional leadership and employee creativity. Afterwards, the theories that support the framework have been discussed. Later on, the methodology that has been applied in the study is discussed along with reason and analysis is presented. Finally, the discussions are made over the findings and concluding remarks along with significance and future recommendations are presented.



2. Literature Review

For meeting the purpose of research and to understand the gaps, initially the literature review over competitive advantage that can be gained through leadership styles has been reviewed. Afterwards the two most important leadership styles which are transformational leadership and transactional leadership have been reviewed for gaining competitive advantage and developing employee creativity. Finally, the intermediary role of employee creativity has been discussed which is followed by the development of theoretical framework with the support of underpinning theories.

3. Competitive Advantage

The capacity of the entities to provide good service in a proper way or in better way as compared to its competitors, is competitive advantage which leads to better profits and develops a relative advantage. Service users who are sensible usually prioritize affordable option out of the available perfect replacements that are being offered to them. For gaining a sustainable competitive advantage, the entities should have the capability to offer significant differences or relatively increased importance as compared to competitors and should give communicate the same to its targeted audience.

The review of literature over competitive advantage revealed that entities that rely mostly over their own capabilities for extreme improvements and depends on internal financing for gaining resources, usually sustain competitive advantage for a longer time period. For the new organizations, which operate in intense competition, the development of competitive advantage is dependent upon knowledge management by the creative employees. The key role that is being played by the newly launched organizations depends upon market situations, along with internal and external factors help the businesses to enjoy competitive benefit.

4. Transformational Leadership

Transformational leaders influence the behavior of followers. This kind of leadership is inspirational, and the behavior of leader inspires the subordinates to perform even better than their capabilities. Transformational leaders, through their personality, inspires their followers for the attainment of unexpected and remarkable results. Transformational leaders develop trust, provide trainings, and give freedom to the employees over their specific jobs to take appropriate decisions. Such kind of behavior of the leader induce a significant positive change in the attitude of followers within the entity which provides competitive advantage to the entity as a whole.

Transformational leaders improves the morale of employees and motivate them to gain competitive advantage. These activities of the employees include understanding the employee and giving them identification for projecting the overall identify of the entity. This can be achieved by providing example to the followers for influencing them with an objective of boosting their interest in the job. Through this process competitive advantage is achieved by the entity over the rivals within its own affordable business practices.

5. Transactional leadership

In contrast to transformational leaders transactional leaders adopt such a management style where they use both penalties and rewards to gain superior performance by the employees. With the help of carrot and stick approach, such kind of leadership is successful in encouraging their followers. Those leaders who follow this kind of leadership approach stresses more over identifying the deficiencies among their followers and try to improve those. It is important to consider that creativity of employees is important, thus it is really important to know how to develop the innovative skills of the employees.

Transactional leaders because of having negotiating skills is the art of management which seeks attention of the employees, and they pay proper attention towards the guidance being provided by the leaders as they have to respond. For the entities, competitive advantage is that attribute which permit them to outperform their competitors which is developed by the dual approach of carrot and stick of the transactional leaders.

6. Employee Creativity

In this study employee creativity is considered to have an intervening role. This capability of the employees is helpful in handling the unfamiliar situations. These capabilities or techniques are adopted by the employees at workplace only if the leadership is supportive and transactional as well as transformational leadership styles both are very helpful. Those leaders that believe in performance analyze the creativity of the employees through goals-oriented behavior of the employees. Leaders assess that up to what extent employees are successful in approaching the tasks assigned to them despite the hurdles being faced and the innovative solutions being implemented by the employees.

7. Theoretical Framework

The framework that has been analyzed in this study is developed utilizing the theoretical support of three different theories which support two independent variables which are transformational leadership and transactional leadership, mediating variable which is employee creativity and dependent variable which is competitive advantage. Hence, in order to cater the two most important leadership styles Goleman Theory of Situational Leadership is used to provide the theoretical foundation for the current research. For taking the theoretical support for the employee creativity enterprise theory is followed. Furthermore, for taking the theoretical support of competitive advantage the well-known theory for supporting the same is developed by Micheal Porter's. The developed framework by using the theoretical lenses of three theories and reviewed literature is presented in figure 1 below:

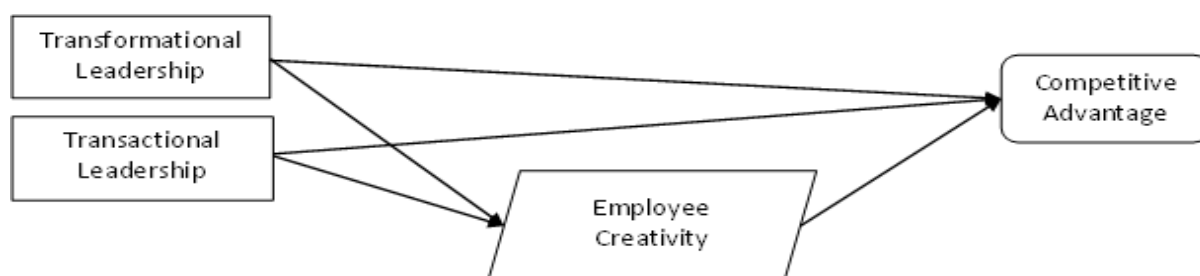


Figure 1 Theoretical Framework

8. Methodology

For the purpose of achieving the objective of the study primary research has been followed to conduct the quantitative study. In order to be sure about the consistency and especially legitimacy of the results, the research design has been chosen through proper procedures, that best serves the purpose of conducting the study. For applying structural equation modeling primary data has been collected with the help of predeveloped instruments which have already been used in other settings, yet the reliability, validity, and discriminant validity has been analyzed. In order to measure leadership styles i.e. transformational leadership style and transactional leadership style the questions have been adopted from the past studies. Likewise, for measuring creativity of employees the questions have been adopted from prior studies. Similarly, for measuring the dependent variable which is competitive advantage the items have been taken from the previous study.

The research has been conducted at one time and cross-sectional data has been collected ignoring the influence over the period of time. The population for this study was the employees working in the housing department of Shajraj, Dubai and Abu Dhabi. However, considering the severity of issue only Sharjah has been chosen and only 323 employees were taken as respondents who were selected randomly from the list provided by the ministry of housing. This random selection of respondents help the researcher to generalize the findings. The main reason behind choosing structural equation modeling is because it is considered as good for model testing and theory building.

9. Analysis and Discussions

Despite the fact that partial least square is a non-parametric test, there are certain activities that should be performed to ensure the reliability and validity of the study findings. The findings are as reliable as the instrument used to measure the variables. Therefore, this research begin the analysis with item loadings and those items have loading values below 0.7 were dropped from the model. However, it has been kept in mind the not less than 10% items were dropped. The calculated values for loading of the items are displayed in table 1.

Table 1 Item Loadings

Questions	Competitive Advantage	Employee Creativity	Transactional Leadership	Transformational Leadership
ComAdv1	0.787			
ComAdv2	0.838			
ComAdv3	0.877			
ComAdv4	0.862			
ComAdv5	0.851			
ComAdv6	0.812			
EmpCre1		0.727		
EmpCre2		0.850		
EmpCre3		0.834		
EmpCre4		0.799		
EmpCre5		0.843		
TrFL1				0.929
TrFL2				0.719
TrFL3				0.856
TrFL4				0.926
TrFL5				0.829
TrFL6				0.716
TrFL7				0.860
TrFL9				0.877
TSacL1			0.864	
TSacL2			0.759	
TSacL3			0.888	
TSacL4			0.929	

The results of item loadings that are mentioned in table 1 revealed that all the items have item loadings above 0.7 and less that 10% of the items have been removed leaving the instrument unaffected. Later on, in order to confirm the reliability and validity of the instrument used to measure the variable Cronbach's alpha, composite reliability and Average Variance Extracted (AVE) have been measured . The threshold for Cronbach's Alpha was considered as 0.6 and for Composite reliability it was considered as 0.7, whereas, for Average Variance Extracted (AVE) the threshold was 0.5 as per the recommended limits. The results of reliability and validity are mentioned in table 2.

Table 2 Construct Reliability and Validity

Variables	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Competitive Advantage	0.895	0.919	0.655
Employee creativity	0.852	0.894	0.632
Transactional Leadership	0.856	0.905	0.708
Transformational Leadership	0.940	0.951	0.710



The results of Cronbach's alpha, composite reliability and Average Variance Extracted revealed that all the calculated values are above the threshold levels and the instrument used for measuring the variable is reliable and valid. In order to further confirm that items used in the instrument discriminate from the items in the other construct for the other variable discriminant validity has been measured. The calculated values for the discriminant validity are mentioned in table 3:

Table 3 Discriminant Validity

Variables	Competitive Advantage	Employee creativity	Transactional Leadership	Transformational Leadership
Competitive Advantage	0.810			
Employee creativity	0.607	0.795		
Transactional Leadership	0.535	0.595	0.842	
Transformational Leadership	0.581	0.611	0.832	0.843

As per the findings which are mentioned in table 1, 2, and 3 it is obvious that the questionnaire used is reliable and valid. Hence the instrument and the collected data are good for the structural equation modeling. Structural equation modeling is used to test the framework drawn with the help of reviewed literature and the underpinning theories. The findings of the direct effects of independent variables over the dependent variable are mentioned in table 4.

Table 4 Direct Effects

		Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P values
Transformational Leadership->	Competitive Advantage	0.533	0.528	0.269	1.983	0.031
Transactional Leadership->	Competitive Advantage	0.553	0.525	0.235	2.349	0.007

The results of structural equation modeling revealed that there is a significant role of transformational leadership for gaining competitive advantage ($\beta = 0.533$, $t = 1.983$, $P = 0.031$). Similarly, transactional leadership also has a direct influence over gaining competitive advantage ($\beta = 0.533$, $t = 2.349$, $P = 0.007$). After ensuring the direct effects employee creativity which is the mediating variable is added in the model. However, before analyzing mediating role of employee creativity the direct impact of transformational and transactional leadership style over employee creativity and the direct impact of employee creativity have been analyzed. The findings are revealed in table 5.

Table 5 Direct Effects Mediating Variable

Paths		Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Transformational Leadership ->	Employee Creativity	0.456	0.056	0.197	2.307	0.031
Transactional Leadership ->	Employee Creativity	0.578	0.182	0.228	2.529	0.012
Employee Creativity ->	Competitive Advantage	0.532	0.086	0.244	2.177	0.006



Table 5 revealed that transformational Leadership directly and significantly influence employee creativity ($\beta = 0.456$, $t = 2.307$, $P = 0.031$). Likewise, transactional leadership also significantly influence employee creativity ($\beta = 0.578$, $t = 2.529$, $P = 0.012$). Similarly, employee creativity also has a significant impact over competitive advantage ($\beta = 0.532$, $t = 2.177$, $P = 0.006$).

Once it is confirmed that the direct impact of exogenous variables over endogenous variables exists the mediating effect of employee creativity has been analyzed. The results are mentioned in table 6.

Table 6 Path Coefficients Mediating Effects

Mediating Paths				Original Sample (O)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Transformational Leadership	->	Employee Creativity->	Competitive Advantage	0.307	0.056	5.527	0.000
Transactional Leadership	->	Employee Creativity->	Competitive Advantage	0.268	0.060	4.449	0.000

The findings mentioned in table 6 revealed that employee creativity holds a significant mediating role among transformational leadership and competitive advantage ($\beta = 0.307$, $t = 5.527$, $P = 0.000$). Similarly, Employee creativity also has a significant mediating effect among transactional leadership and competitive advantage ($\beta = 0.268$, $t = 4.449$, $P = 0.000$).

10. Discussions

In the analysis all the relationships have been analyzed using a bootstrapping level of 5000. The results of the structural equation modeling revealed that transformational leadership has a significant influence over competitive advantage which is aligned with the prior literature as the prior literature also claimed that transformational leadership significantly influence competitive advantage. This is because the transformational leaders encourage and facilitate their employees towards decision making as per the situations which further strengthen the theory of situational leadership.

Similarly the second significant impact that has been observed is between transactional leadership and competitive advantage is also ensured which is consistent with prior studies where it is confirmed that transactional leadership significantly influence competitive advantage. This is because due to the policy of identifying and facilitating the employee needs of the transactional leaders and involving them in decision making improved competitive advantage.

After introducing the mediating variable in the model the results of the direct impacts between transformational Leadership and employee creativity is proven significant which is in line with the prior studies because it holds a major role in development of employee creativity. In the same domain transactional leadership also holds a significant impact over employee creativity which is in accordance with the prior studies.

While analyzing the mediating role of employee creativity employee creativity also holds a significant mediating effect between the two leadership roles and competitive advantage. This is because of the fact that it's the leadership that gives freedom to the employees and they act in accordance with the situation and due to the confidence inculcated by the leadership performs well and develops competitive advantage. These findings are also in line with prior studies where it is confirmed that employee creativity holds mediating effect between leadership and competitive advantage.

11. Conclusions, Limitations, and Recommendations

The objective of the research was to analyse the mediation of employee creativity between transformational, transactional leadership and competitive advantage. The study strengthen the body of knowledge by providing empirical evidence of the significant mediating role of employee creativity. The findings support the theoretical propositions of situational leadership, competitive advantage theory and creative employees' theory. The findings of the study answered the research questions despite having some limitations. In past several researchers have conducted research and identified those issues due to which leadership become incapable of gaining competitive advantage, this study



added the impact of employee creativity, as if the employees are not creative to manage the unseen circumstances competitive advantage cannot be achieved.

Along with that the mediating role of employee creativity added to the literature of competitive advantage by confirming that employee creativity is such a useful resource which may provide competitive advantage. The practical contribution of the study are more relevant and pertinent as compared to theoretical significance especially for the managers and policymakers. Conclusively, there is no harm in confirming that leadership and governance of the entities need to pay more attention towards innovation and creativity for gaining competitive advantage and high returns. Leaders in the entities especially the public entities need to pay special attention over development of collaborative culture by providing enough freedom to their subordinates to gain competitive advantage.

The future researchers are given the recommendations based on the limitations of this study. Initially, as this study followed a cross-sectional research therefore, a longitudinal study is recommended to observe the impact of leadership styles over employee creativity and over competitive advantage. Secondly, other method than questionnaires should be adopted by the researchers in future to avoid any common method biases.

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