

July 2020

## Transformational Leadership, Information Technology, Knowledge Management, Firm Performance: How Are They Linked?

Mostafa Sayyadi Ghasabeh

*The Change Leader Consulting Inc., San Diego CA, US, mostafasayyadi1@gmail.com*

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### Recommended Citation

Sayyadi Ghasabeh, Mostafa (2020) "Transformational Leadership, Information Technology, Knowledge Management, Firm Performance: How Are They Linked?," *The Journal of Values-Based Leadership*: Vol. 13 : Iss. 2 , Article 17.

DOI: <https://doi.org/10.22543/0733.132.1317>

Available at: <https://scholar.valpo.edu/jvbl/vol13/iss2/17>

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**MOSTAFA SAYYADI  
GHASABEH**  
SAN DIEGO, CA, USA

# **Transformational Leadership, Information Technology, Knowledge Management, Firm Performance: How Are They Linked?**

## **Abstract**

*This paper analyzes the theoretical relationships between transformational leadership, knowledge management, firm performance, and information technology. My analysis of the literature in this article demonstrates that although past empirical research confirms the importance of these theoretical relationships for building organizational performance outcomes but they have failed to present these theoretical links in an integrated model. This article develops arguments on the impacts of transformational leadership on knowledge management, firm performance, and information technology. A review of the existing literature illustrates that transformational drive performance through improved use of data, information, and knowledge to increase speed, lower cost, and meet customer expectations to secure competitive advantage. More specifically, this research shows that transformational leaders not only directly impact knowledge management, but more specifically, foster more effective information technology use, which can positively contribute to the effectiveness of knowledge management as a significant driver of firm performance.*

## **Introduction**

Executives are spending more time today concerned about operational risk than ever before. Operational risk, according to Wiig (1994), is an operational approach to represent knowledge management but in this case, it seeks to apply organizational knowledge in order to improve firm performance (Keskin, 2005). Existing literature combines the interactions of transformational leadership, knowledge management, and firm performance. The purpose of this article is to synthesize the extant literature on these organizational factors in the field of management. I expand on this concept by attempting to better understand the mechanisms by which knowledge management and firm performance are influenced by transformational leadership. In the first section, I present a new facet that executives have embraced—transformational leadership.

A literature review is conducted to identify the relationships between information technology, transformational leadership, knowledge management, and firm performance. The nature of the interactions between transformational leadership, knowledge management, information technology, and firm performance suggests several complementary insights for the existing literature. In particular, my focus on this critical role of transformational leadership allows us to have a rich basis for understanding the mechanisms by which information technology is better managed by transformational leaders. This article has articulated a different approach and it extends these lines of study by examining how the four vital factors of transformational leadership, information technology, knowledge management, and firm performance are linked.

## **Transformational Leadership and Knowledge Management Processes: How Are They Linked?<sup>1</sup>**

### ***Transformational Leadership and Knowledge Accumulation***

Transformational leadership plays a critical role in developing interactions and relationships towards more effective performance at the organizational level. Transformational leadership theory can also serve as an ideal vehicle to develop social networks, thereby providing further opportunities for employees to explore new ideas and knowledge. These roles could also be justified using the dimensions of this leadership, such as inspirational motivation and intellectual stimulation which inspire followers to take risk-related efforts and generate more innovative solutions. Moreover, it is evident that a transformational leader can, in turn, facilitate the knowledge acquisition process through idealized influence that is considered essential for developing relationships. To demonstrate, several researchers including Politis (2001), Jung, Chow and Wu (2003), and Tse and Mitchell (2010), empirically investigated the impact of transformational leadership on knowledge creation and acquisition processes. These researchers highly affirmed that a transformational form of leadership was a necessary precursor for the creation and acquisition of knowledge. Following this, it can be established that transformational leadership positively impacts the knowledge accumulation process by promoting its fundamental constructs, including knowledge creation and acquisition. Furthermore, transformational leadership improves the knowledge integration by providing intellectual stimulation, which enhances the knowledge sharing process around the company.

### ***Transformational Leadership and Knowledge Integration***

A transformational leader could also provide a significant contribution to knowledge integration through implementing idealized influence aimed at enhancing relationships within organizations. Scholars Liu and Phillips (2011) explored this relationship, and illustrated that transformational leadership could build a climate that would inspire followers to share their knowledge and facilitate the knowledge-sharing process. Moreover, transformational leaders are clearly the ones who establish networks with environmental components, thereby adopting the idealized influence aspect necessary in developing relationships and interactions.

### ***Transformational Leadership and Knowledge Reconfiguration***

It can also be argued that this theory of leadership inspires organizations as a whole to develop networking with more effective enterprises through employing inspirational motivation by setting highly-desired expectations for followers. Therefore, transformational leaders provide a significant contribution to knowledge reconfiguration by facilitating the activities associated with networking. And these roles that stress a more knowledge-oriented company highly recommend transformational leaders for the knowledge economy largely based on managing companies' knowledge assets. In this way, Liu and Phillips (2011) have

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<sup>1</sup> Knowledge management has been defined from various perspectives. Executives embrace the process perspective because it takes a task-based approach by translating the management of knowledge into various organizational processes. I take executives through a new model that is based upon Lee and Kim's (2001) work in this area because of its appropriateness for transformational leadership.

provided empirical evidence to support the vital importance of transformational leadership in improving the processes of knowledge management within companies.

### **Transformational Leadership and Organizational Performance: How Are They Linked?**

Researchers including Dvir, Eden, Avolio, and Shamir (2002), Hancott (2005), Zhu, Chew, and Spangler (2005), Flemming (2009), Patiar and Mia (2009), García-Morales, Jiménez-Barrionuevo, and Gutiérrez-Gutiérrez (2012) all illustrate that the four principal roles of transformational leaders impact various financial and non-financial performance. The findings of these studies have been summarized in *Table 1*.

**Table 1: Effects of Transformational Leadership on Companies' Financial and Non-Financial Performance**

<i>The Principal Roles of Transformational Leaders</i>	<i>Financial Performance</i>	<i>Non-financial Performance</i>
*Idealized influence (Attributes)	*Improving the price of stock	
*Idealized influence (Behaviors) *Inspirational motivation	*Decreasing the costs of organization	
*Intellectual stimulation *Individual considerations	*Increasing the sales of organization	*Improving innovation *Increasing the rapidity of responses to environmental changes *Improving the quality of products *Customer focus *Developing opportunities for learning

### **Knowledge Management Is Crucial to Leadership and Long-Term Success**

To define knowledge management as a facilitator of transformational leadership, Lee and Kim's (2001) approach to managing knowledge has been selected as it reflects a more strategic and practical perspective. This approach is process-oriented and most applicable in the context of leading organizations. In Lee and Kim's (2001) view, organizational knowledge, firstly, is accumulated by creating new knowledge from organizational intellectual capital and acquiring knowledge from external environments. Therefore, this process embraces generating knowledge from existing intellectual capital through developing organizational innovation. This knowledge exchange with external business partners develops innovative environments that enable transformational leaders in intellectual stimulation aimed at creating a more innovative climate in companies. In addition, this process enhances the capabilities of transformational leaders to engage in inspirational motivation, which is directed at setting highly-desired expectation to recognize possible opportunities in the business environments. The knowledge exchange also positively contributes to how transformational leaders facilitate idealized influence, and develop a more effective vision, and includes more comprehensive information and insights about external environments. Furthermore, the knowledge creation improves employees' empowerment, and largely develops the role of transformational leaders in individualized

consideration that focuses on empowering human knowledge holders. Hence, the synthesis of existing literature has provided fascinating evidence regarding a vital importance of knowledge accumulation in the effectiveness of transformational leadership.

Secondly, knowledge is integrated internally to enhance the effectiveness and efficiencies in various systems and processes as well as to be more responsive to market changes. In this process, the accumulated knowledge is synthesized to produce higher quality outcomes. In general, knowledge integration focuses on monitoring and controlling knowledge management practices, evaluating the efficacy of current knowledge, defining and recognizing core knowledge areas, coordinating experts, sharing organizational knowledge, and scanning the changes of knowledge requirements to keep the quality of their productions/services in market. In order to promote knowledge integration, Cohen and Levinthal (1990) argue that members' skillsets and interpersonal relations based on trust and reciprocity can increasingly empower the performance of these expert groups. It is apparent that both knowledge integration activities of evaluating the existing organizational knowledge and assessing the required changes to keep the quality positively impact on transformational leaders to more effectively recognize their employee's learning needs are required. Further, a systematic process of coordinating company-wide experts enables transformational leadership by propelling the role of intellectual stimulation which serves to create a more innovative environment. In addition, an apparent argument is that those qualities indicating a high-performing expert group, as Tiwana, Bharadwaj, and Sambamurthy (2003) argue, are considerably overlapped with Kerry Webb's (2007) scales about an effective transformational leader that examine the capabilities of these leaders in creating trust within companies. Logically, this practice itself develops a climate that transformational leaders target.

Thirdly, the knowledge within organizations needs to be reconfigured to meet both environmental changes and new challenges. In this process, knowledge is shared with other organizations operating in the business environment. Past studies have observed that companies might lack the required capabilities to interact with other companies, or even suffer the distrust to share their knowledge. These studies indicate that expert groups may not have sufficient diversity in order to comprehend knowledge acquired from external sources. Due to these limitations, Lee and Kim (2001) posit that networking with business partners is a key activity for companies to enhance knowledge exchange. Given these points, networking with external business partners facilitates the role of idealized influence, thereby empowering transformational leaders to become better able to develop a more effective vision which incorporates various concerns and values of external business partners. Additionally, the knowledge transference among companies itself improves the efficacy of learning, which in turn enables both transformational leadership roles of idealized consideration by empowering human resource and intellectual stimulation through creating new knowledge and solutions. Taken together, this review illustrates that networking among companies in a domestic and international market leads to enhance the effectiveness of transformational leadership within companies. Furthermore, the empirical studies by Lee and Choi (2003), Fugate, Stank, and Mentzer (2009), Oh (2009), and Cho (2011) have collectively shown that knowledge is a significant indicator for improving organizational performance through the way it is managed by top management executives. These studies have also illustrated that the knowledge management processes can improve financial and

non-financial performance through increased sales, customer satisfaction, learning opportunities, innovation, and quality of products and services.

### **Transformational Leadership and Information Technology: How Are They Linked?**

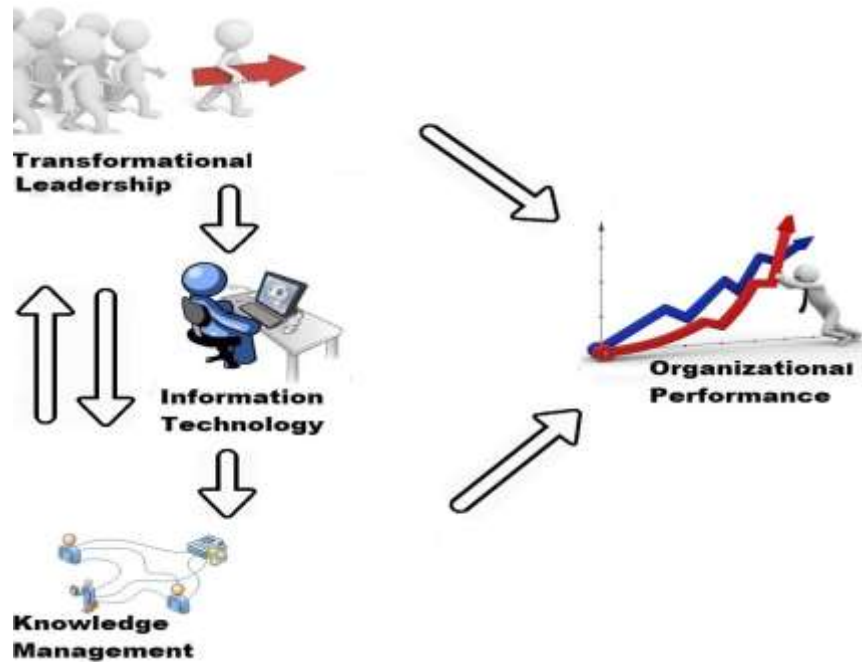
Transformational leadership has been highlighted as a theory of leadership where relationships and interactions are developed within companies. This leadership theory concentrates on setting highly-desired expectations and inspiring followers to identify further opportunities in their respective workplaces. Information technology used as an internal resource to facilitate organizational communications and improve the search for knowledge could be developed by transformational leaders to enhance their effectiveness. The idealized influence aspect of transformational leadership can be considered as an important facilitator of information technology, which enhances interactions among organizational members and departments. In addition, a transformational leader is a role model who is admired and respected by subordinates. Accordingly, it can be argued that information technology could be perceived as a critical resource by organizational members because a transformational leader becomes a role model for them. Similarly, Yee (2000) and Seyal (2015) posit that a transformational leader serves as a role model by highlighting the importance of the effective use of information technology. In conformity with this reasoning, scholars Schepers, Wetzels, and de Ruyter (2005) conducted empirical research whereby they discovered a significant correlation between transformational leadership and perceived usefulness of information technology within companies. Noseworthy (1998) and Chandna and Krishnan (2009) also affirm the strategic role of transformational leadership in the success of information technology implementation in organizations.

### **Information Technology and Knowledge Management: How Are They Linked?**

Information technology can be employed to enhance the conversations and exchange of knowledge between organizational members. In Gold, Malhotra, and Segars' (2001) view, knowledge shared through information technology could positively contribute to knowledge integration. Grant (1996) highlights knowledge integration as a major reason for the existence of a company. Equally important, knowledge sharing itself can in turn develop a more innovative climate and facilitate knowledge creation in organizations. Accordingly, information technology can play a crucial role in improving knowledge creation. Thus, it can be inferred that information technology is an internal resource that develops and integrates organizational knowledge as the most strategic factor of competitiveness. In addition, information technology can be also considered as a facilitator of the knowledge creation process through providing the essential infrastructures to store and retrieve organizational knowledge. As a result, it is apparent that information and communication technology positively affects various processes of knowledge management. Similarly, Muhammed (2006) highlights major functions for information technology. He explains that information and communication technology enhances learning and knowledge sharing by providing access to knowledge, stimulating new ideas and knowledge generation. He also elaborates that information technology transfers individual skillsets to other members and departments, thereby improving knowledge capturing, storing, and accumulating to achieve organizational goals.



Figure 1 provides a snapshot of how transformational leadership, information technology, knowledge management, and firm performance are linked.



*Figure 1.* Relationship between Transformational Leadership, Information Technology, Knowledge Management, and Firm Performance

## Conclusion

This study indicates that information technology plays a mediating role in the relationship between transformational leadership and knowledge management. Ergo, the influences of transformational leadership on knowledge management occurred not only directly, but also indirectly through the mediating effects of information technology. This research contributes to knowledge by exploring a framework upon which to continue developing more comprehensive understandings of the relationships between transformational leadership, knowledge management, information technology, and organizational performance. I suggest that scholars take these ideas and continue to conduct research using executives as the focal point so that academic scholarship can empirically investigate the correlation among these factors and meet the needs of managerial implications at the higher echelons of organizations worldwide. In addition, this study contributes to practice by identifying the ways in which to build a high-performing organization through transformational leadership knowledge management, and information technology.

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## About the Author

**Mostafa Sayyadi Ghasabeh** is an author, senior international management consultant, former Leadership Team Member of San Diego-based *The Change Leader Consulting Inc.*, Business & Technology Journalist, and Associate Fellow of the *Australian Institute of Management*. In recognition of his work with the Australian Institute of Management and Australian Human Resources Institute, he has been awarded the titles, "Associate Fellow of the Australian Institute of Management" and "Certified Professional in Human Resources."

Mostafa Sayyadi Ghasabeh can be contacted at: [mostafasayyadi1@gmail.com](mailto:mostafasayyadi1@gmail.com).