



Contents lists available at ScienceDirect

International Business Review

journal homepage: www.elsevier.com/locate/ibusrev

Knowledge-oriented leadership and open innovation: Role of knowledge management capability in France-based multinationals

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ARTICLE INFO

Keywords:

Open innovation
Knowledge management capability
Knowledge-oriented leadership
Structural equation modeling
Multinational companies

ABSTRACT

This paper discusses the links between knowledge-oriented leadership, open innovation and knowledge management in the international business context. Open innovation has become crucial for an increasing number of multinational enterprises (MNEs) to gain and maintain competitive advantage and become a market leader. Despite the recent proliferation of papers dealing with open innovation practices of MNEs, there is limited work investigating the role of knowledge management (KM) capability on the relationship between knowledge-oriented leadership and open innovation. Given MNEs' growing interest in open innovation, the lack of research on knowledge-oriented leadership and KM capability in the open innovation context is a significant research gap in our knowledge. In response, we conducted a study on the mediating role of KM capability in the linkage between knowledge-oriented leadership and open innovation (inbound and outbound), using data collected from 172 subsidiaries of MNEs based in France. A structural equation modelling approach is employed to study the impact of the latent variables associated with knowledge-oriented leadership and KM capability on open innovation. The results indicate that higher levels of knowledge-oriented leadership can lead to enhanced KM capability and improved open innovation outcomes. That is, knowledge-oriented leadership has a direct, positive impact on KM capability and open innovation. Also, KM capability is found to mediate the linkage between knowledge-oriented leadership and open innovation. This study provides useful insights for managers who wish to enhance open innovation activities in MNEs, and offers useful guidance to international business scholars, encouraging further research in this area.

1. Introduction

Open innovation is crucial for a multinational enterprise (MNE) to maintain its competitive advantage and become a leader in the market. Open innovation has become increasingly important as a source of competitive advantage for a firm (Schneckenberg, 2015). Open innovation indicates that innovative performance can be improved by both acquiring knowledge from outside sources and employing external paths to commercialize knowledge resources developed internally. Innovation performance is often represented by the number of achievements (e.g., the quality of new products, new processes) (Hung, Lien, Yang, Wu, & Kuo, 2011). MNEs exhibit a tendency to seek access to others' knowledge and technology in order to enhance their global competitiveness (Jasimuddin, Li, & Perdakis, 2015a; Steensma & Lyles, 2000). Park and Ghauri (2011) highlight key factors affecting the acquisition of technological capabilities of MNEs. Due to the challenges of market dynamism, MNEs have started to embrace the open innovation model, and reduce their reliance on the inward-looking closed

innovation. Many MNEs currently engage in KM by adopting this model, in order to leverage knowledge both within their boundaries and externally to their stakeholders. MNEs such as Lucent, IBM, Intel and Millennium Pharmaceutical, DMS, P&G and ItalCementi are pioneers in adopting open innovation (Mortara & Minshall, 2011).

In the knowledge-based society, MNEs face not only the challenge of offering innovative products and services through effective exploitation of knowledge resources available to them (Vaccaro, Jansen, Van Den Bosch, & Volberda, 2012), but also the challenge of how they capture and use the knowledge available outside their boundaries (Chesbrough & Crowther, 2006; Zahra & George, 2002; Zahra, Nielsen, & Bogner, 1999). Knowledge-based view of the firm regards knowledge as a strategic resource whereby the MNE can create value by exploring and exploiting it through its proper management and gain a competitive market position (Grant, 1996; Jasimuddin, Connell, & Klein, 2005; Zack, 1999). The proper management of knowledge demands leaders to influence their firm for constructive acquisition and application of knowledge (Ribiere & Sitar, 2003). Due to Shifting leadership from the

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<https://doi.org/10.1016/j.ibusrev.2017.12.001>

Received 6 March 2017; Received in revised form 3 December 2017; Accepted 5 December 2017
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industrial age to the knowledge era (Uhl-Bien, Marion, & McKelvey, 2007), knowledge-oriented leadership become a core factor in organizations to meet challenges in open innovation. For this, MNEs managers need knowledge management (KM) capability (i.e., infrastructure and process) to enhance open innovation.

Although research interests in leadership and knowledge management (KM) capability is growing, limited empirical research has been directed towards the impact of knowledge-oriented leadership and KM capability on open innovation. There has been a growing interest among scholars and practitioners in the area of inbound and outbound open innovation. Donate and de Pablo (2015) pioneer in contributing to the leadership and knowledge management theory by presenting a model, which explains how knowledge-oriented leadership promotes effective KM. However, in order to account for the indirect role of leadership, they explore the linkage between knowledge-oriented leadership and innovation through KM practices. The study, however, overlooked how knowledge-oriented leadership might directly influence innovation outcomes. Hence, there is a research gap in explaining the direct association between knowledge-oriented leadership and open innovation outcomes (inbound OI and outbound OI). To the best of our knowledge, the empirical evidence of the intervening role of KM capability on the relationship between knowledge-oriented leadership and open innovation (inbound and outbound) is scant.

Against this backdrop, an empirical evidence is required to validate how knowledge-oriented leadership influences inbound and outbound open innovation in the context of MNE. We propose the mediating role of KM capabilities by arguing that the leaders are responsible for enhancing KM capability of MNEs by developing culture and structures that are conducive for knowledge creation and utilization (Donate & Guadamillas, 2010; Gold & Malhotra, 2001) as well as the application of technology (Lin & Huang, 2008). In addition, leaders also influence KM capability by setting the direction and vision for followers to manage the knowledge in the MNE (Mumford, Whetzel, & Reiter-Palmon, 1997).

This study aims to contribute to the theoretical development of a conceptual model for explaining the relationships among knowledge-oriented leadership, KM capability, and open innovation of MNEs. This study contributes to the literature by empirically examining the relationships among knowledge-oriented leadership, KM capability, and open innovation of MNEs. This study is an attempt to extend the literature in the fields of leadership, KM, open innovation and international business. The study will also provide insights to the MNEs in understanding how knowledge-oriented leadership style and KM capabilities can influence their OI targets. An understanding of these phenomena can help MNEs in selecting appropriate leaders and in developing leadership behaviors and promoting technologies, culture, structures and procedures so as to enhance open innovation activity in MNEs.

The remainder of this paper is organized as follows. Section 2 presents the research framework, discusses the concepts of knowledge-oriented leadership, KM capability, and open innovation, and develops the hypothesized relationships. The research methodology and analysis of results are then presented, followed by the discussion of the findings. Finally, we highlight its implications and give suggestions for future research.

2. Theoretical background and hypotheses

This section reviews the literature to propose a research model which posits that knowledge-oriented leadership and KM capability facilitate open innovation in the context of French-based MNEs. The theoretical framework suggested in this study draws on knowledge-oriented leadership, KM capability, and open innovation. Fig. 1 displays the research model that guides the execution of the study. The article tests four hypotheses regarding these concepts, which are developed in the following paragraphs.

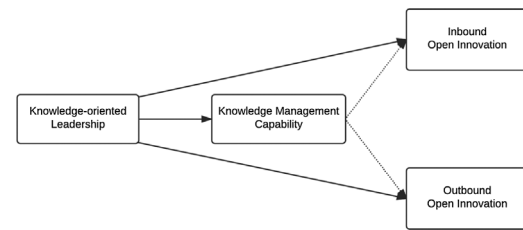


Fig. 1. Theoretical framework.

2.1. Knowledge-oriented leadership

For the purpose of the study, knowledge-oriented leadership is defined as an attitude or action, observed or imputed, that prompts the creation, sharing, and utilization of new knowledge in a way that seems to bring a shift in thinking and collective outcomes (Mabey, Kulich, & Lorenzi-Cioldi, 2012). Several scholars (e.g., Bryant, 2003; Garcia-Morales, Llorens-Montes, & Verdú-Jover, 2006) have highlighted the role of leadership in prompting innovation outcomes. Others (e.g., Agbor, 2008; Bryant, 2003; Vaccaro et al., 2012; Yang, 2007) have recognized the role of leadership in sourcing, creating, transforming and utilizing knowledge, mentioning several functions such as role models, motivators, and facilitators. Moreover, Bryant (2003) and Vaccaro et al. (2012) shed light on how leadership styles, such as transactional and transformational leadership styles, affect innovation outcomes. more recently, Donate and de Pablo (2015) argue that to effectively manage knowledge, leaders are required to adopt a combination of leadership styles, and not just adopt a single leadership style. These researchers explored the role of a specific type of leadership, knowledge-oriented leadership, combining the elements of transactional and transformational leadership.

2.2. Open innovation

Open innovation processes combine internal and external ideas into architectures and systems (Chesbrough, 2011). The open innovation research focuses on the knowledge flow directions (inflows and outflows) and importance of openness level for the companies (Enkel, Gassmann, & Chesbrough, 2009; Žemaitisa, 2014). Open innovation comprises two dimensions: inbound open innovation and outbound open innovation. Inbound OI involves identifying and acquiring knowledge from external sources (Chesbrough, 2003). Accordingly, after careful analyses of the available knowledge, firms identify, select and acquire ideas that they see useful and complementary to their business models. Outbound OI involves exploitation of a firm's knowledge and technology through commercialization in the external market (Chesbrough, 2003). Reflecting this view, Lichtenthaler and Ernst (2006) argue that outbound open innovation highlights the active persuasion of external knowledge exploitation, which refers to its commercialization using licensing and other transfer means.

2.3. Knowledge-oriented leadership and inbound OI

The previous literature recognizes leadership as a critical factor in effectively managing organizational knowledge (Singh & Kant, 2009; Singh, 2008). To effectively acquire and integrate knowledge from external sources, firms rely on leaders who encourages managing activities that support the development of knowledge and its acquisition (DeTienne, Dyer, Hoopes, & Harris, 2004). While leadership in general affects most aspects of an organization, Donate and de Pablo (2015) specifically identified a particularly type of leadership that promotes creating, transferring, storing and applying knowledge which can be coined as knowledge-oriented leadership. Knowledge-oriented

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