



## Spiritual Leadership and Firm Value:

### An Empirical Evidence from Auto Parts SMEs in Thailand

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#### Abstract

The purpose of this research is to investigate the influence of spiritual leadership on product innovation, administrative innovation and firm value. Spiritual leadership theory was employed to explain spiritual leadership's relationships on product innovation, administrative innovation and firm value. In addition, this research tests the impact of product innovation and administrative innovation on firm value. The managing directors or managing partners of each firm were the key informants. The data was collected from the mailed questionnaire of 159 auto parts SMEs in Thailand. The response rate was 14.85%. The results of the Ordinary Least Squares (OLS) regression analysis were revealed. The findings found that the spiritual leadership have positive significance on the product innovation, administrative innovation, and firm value. The empirical evidence of this research suggests that the Auto Parts SMEs in Thailand can enhance their spiritual leadership by focusing on forthcoming innovations, and leadership needs to take an active part in fostering, encouraging and supporting a great deal of creativity. They also need to develop innovation to develop their auto parts in order to react to their customer's needs quicker than competitors. Therefore, the managers should promote and support these factors in their business operation which effect to increasing of firm value.

**Keywords:** Spiritual leadership, product innovation, administrative innovation, firm value

#### Introduction

In recent years, increased competitions along with globalization and rapid advancement of technology have made a number of successful businesses obsolete (Guo, Su & Ahlstrom, 2015). To survive the modern era of intense global competition, companies require faster, more frequent and

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more widespread innovation in their business models (Doz & Kosonen, 2010). Innovation has been viewed as a crucial element for dealing with challenges of uncertainty, strong competition, and acquiring competitive advantage so that survival and prosperity in the global market can be guaranteed (Vargas, 2015). The corporate world nowadays is full of challenges and competitions, and most firms are facing a lot of threats and hurdles (Maamari & Majdalani, 2017). These firms have found difficulties in maintaining their competitive edges and sustaining their well-beings (Anand & Udaya-Suriyan, 2010). In order to survive from and develop in this competitive environment, several firms need to change their strategies by creating innovations, new ideas, products and services. These strategies can be sources for competitive advantages and business opportunities can increase a chance to be particularly outstanding among their competitors and survive through unstable economy. Therefore, it is crucial for a firm to innovate products or services through creativity enhancement so that it may gain a competitive advantage and a sustainable success (Gumusluoglu & Ilsev, 2009). In addition, almost all countries are currently encouraging innovation and creativity to increase efficiency and improve the economic situation, as it is one of the main advantages to business sustenance (Scott-Kemmis, 2012). To achieve the desired outcomes such as creativity and innovation, substantial attention has to be given to how employees as enablers of creative and innovative outputs experience their firms' leadership, practice and policy that encourage or hinder creativity and innovation in the firm (Khalili, 2016).

The circumstances which firms function are characterized by numerous changes and challenges. In this plausible scenario, the role of the leader is not only vital for the effectiveness of the firm, but also for its survival (Martí, Gil & Barrasa, 2009). Moreover, the firms focus on developing appropriate leadership behaviors to stand up to intensive competitive pressure and cope with turbulent and uncertain environments (Birasnav, Albufalasa & Bader, 2013). Furthermore, having inspirational motivation is a way to communicate an appealing vision and using symbols to concentrate on subordinate efforts and express important objectives in ordinary ways (Yukl, 2010). Spiritual leaders are capable to changing the way others see and do things. They take charge and influence the attitudes and actions of others in order to achieve a common goal that will finally benefit the whole group (Modaff et al., 2008). Leadership is a critical element in providing sustainability to an organization. Therefore, leaders play an important role in ensuring that the workers are fulfilled in order to enhance their work quality and productivity (Jamaludin, Rahman, Makhbul & Idris, 2011). A spiritual leader has been described as the person who behaves fairly while

simultaneously, and is effective and profitable for his firm (Fernando, 2007). Consequently, the existence of spiritual leadership in such firms demands continuous change, evolution and success.

SMEs are the mainstay which drives Thailand's economic growth. SMEs will be developed as a tool to create competitiveness for competitive and inclusive growth which promotes SMEs as a basis to be linked with Thai economy in the 4.0 era to grow steadily and sustainable. Auto parts firms in Thailand is the population of this research, and this type of business is chosen as it is highly competitive and always introduces new innovations to fulfill market's needs. In particular, this industry needs more investment and involvement with firm capability. However, few studies have been conducted to explore the impact of spiritual leadership on organizational innovation. In this era, there must be spiritual leadership to be determined more in a firm because the administration and business operation must be transparent and equal in any workplaces. It is very important because justice and equality in management in a firm can give employees a better life, and they can feel that they are meaningful. This study suggests that spiritual leadership increase the product innovation and administrative innovation and firm value.

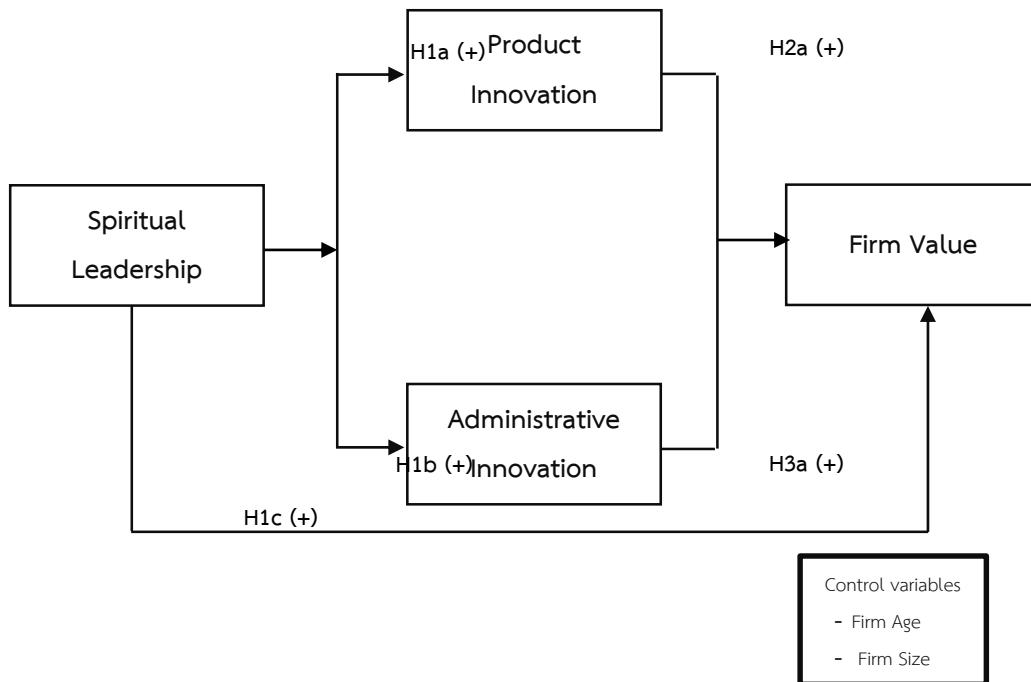
### **Research Objectives**

1. To investigate the influence of spiritual leadership on product innovation, administrative innovation and firm value.
2. To examine the impact of product innovation and administrative innovation on firm value.

### **Literature review**

This research investigate the influence of spiritual leadership on product innovation, administrative innovation and firm value. Spiritual leadership theory was employed to support the linkage among variables in the model. The theory is a causal leadership theory for organizational transformation designed to create an intrinsically motivated, learning organization. Moreover, the spiritual leadership takes part in motivating and inspiring workers through a transcendent vision and a cultural basis in altruistic values to produce a more motivated, committed and productive workforce (Fry & Matherly, 2006). It is based on the concept shown in Figure 1 below.

**Figure 1:** Conceptual Model



**Spiritual leadership** refers to the ability deeply embedded in a leader that has desirable visions, attitudes and behaviors necessary to motivate himself and others by being a trustworthy role model and inspiration. Spiritual leadership comprises the values, attitudes, and behaviors of a leader to intrinsically motivate the self and others through spiritual well-being, calling and membership from which followers can experience meaningful lives and feel capable of making a difference, being understood, and being appreciated by the leaders (Fry, Vitucci & Cedillo, 2005). Therefore, leaders play an important role in ensuring that the spiritual needs of the workers are satisfied in order to enhance their work quality and productivity. Spiritual leadership can help leaders with ethical decision making and the firm's creation of a healthy balance between profits, people and the planet (Fernando, 2011). Spiritual leadership provides the foundation for developing learning process, creativeness, empowerment, and innovation required to drive firm excellence in processes and outputs (Fry, Matherly & Ouimet, 2010). Chopra (2002) stated that firm's dynamic commercial environment, productivity, innovation, performance and competition are of the unique outputs of spiritual leadership. Leadership has been put forth as a key driver of organizational innovation (Wang and Rode, 2010). Leadership, which facilitates innovation and competitiveness, is important to sustain business growth in Asian markets underneath the global pressure to constantly develop innovation

(Chen, Lin, Lin & McDonough, 2012). Therefore, the part of leadership is significant for innovation in workplaces (Khalili, 2016).

Hypothesis 1: Spiritual leadership has a positive influence on, a) product innovation, b) administrative innovation, and c) firm value.

**Product innovation** refers to introducing new products into the market, changing or improving the existing products along with using various technologies for more benefits of consumers than existing ones. Lee (2010) said that the survival or death of a firm depends on its innovation. Product innovations consist of creation and development of new products and services or major improvement in existing products to fulfill the market's demand (Taneja, Pryor & Hayek, 2016). Moreover, product innovation is a center for firms in developing and maintaining their competitive advantages (Chen, 2007), increasing competitions and accelerating product life cycles which mean that product innovations become even more important (Slater, Mohr & Sengupta, 2014). However, preparation for new products in the face of competition from rivals is a way to be ahead in a competition through product innovation (Kuncoro & Suriani, 2018). Product innovations much better suit the companies because successful product innovation generates profits, increases market shares, and has a positive effect on market performance (Fossas-Olalla, Minguela-Rata, Lopez-Sanchez & Fernandez-Menendez, 2015).

Hypothesis 2: Product innovation has a positive influence on firm value.

**Administrative innovation** refers to innovate and change organizational structure and management process that are needed to achieve the firm's major goals. Innovativeness also creates basic values, assumptions, and beliefs within the firm that lead employees' apply and transform knowledge into new products, services, processes, technologies, and administrative systems or structures, policies, plans, and programs (Kor & Maden, 2013). In addition, organization innovation consists of openness, acquisition and generation of new ideas and tendency toward a change through new technologies, resources, skills, and administrative systems (Ussahawanitchakit, 2008). Moreover, administrative innovations necessitate the organization's social structure, administrative processes and managerial aspects which are needed to achieve the firm's core activity, and it is a new method implementation in business practices of the firm (Jalali & Sardari, 2015). These innovations are indirectly related to fundamental activities of the firm and more directly to the way those activities are managed (Damanpour & Evan, 1984).

Hypothesis 3: Administrative innovation has a positive influence on firm value.

**Firm value** refers to the performance of a business that has grown efficiently, with desirable corporate governance and transparency. The major determinants of firm value are profitability and growth. The optimization of a firm value can be reached by running the function of financial management, where one decision taken will influence others and firm value (Fama & French, 2007). Cardoso and Teixeira (2009) found that research and development (R&D) involves enhancement of the innovative capability and creation of intangible capital for a firm, suggesting market capture this in the valuation of the firm.

## Methodology

### Sample Selection and Data Collection Procedure

The population of this research is auto parts SMEs—with a total number of 1,093—in Thailand. The auto parts SMEs was selected as the unit of analysis because it is highly competitive and always introduces new innovations to meet market needs. In particular, this industry needs more investment and involvement with firm capability. The population data was collected from the database of the Office of SMEs Promotion (<http://www.sme.go.th>). The data were generated by employing a key-informant survey design. Therefore, questionnaires were mailed to managing directors or managing partners of each firm, as the key informants. As a result, 25 mail surveys were undeliverable because some firms were no longer in business or had moved to unknown locations. The undeliverable mail surveys were deducted from the original 1,093. Therefore, the total mail surveys was 1,071. Finally, 165 responses were received. However, only 159 completed questionnaires were usable for research's analysis. The effective response rate was approximately 14.85 percent. The testing of non-response bias is to investigate the responding results after the questionnaire was returned. The important reason for this procedure is to avoid any bias problems occurring between respondents and non-respondents. The results derived from the test revealed that there was no significant difference between early and late respondents as recommended by Armstrong and Overton (1977). The instrument was developed based on spiritual leadership in the literature review, and its validity and reliability were tested by using a pre-test. Multiple regression analysis was used to improve all hypotheses testing.

### Variable Measurement

The instrument was developed in reference to the literature reviews on spiritual leadership. The dependent variables, independent variables, and control variables were measured by using five-point Likert scale as explained in the following section.

Spiritual Leadership was measured by vision, attitudes and behavior necessary for motivating self (Fry, 2003). This construct was developed as a new scale, a four-item scale, based on the definition and literature review.

Product Innovation was measured by introducing new products, changing or improving the existing products and using various technologies (Jalali & Sardari, 2015). This construct was developed as a new scale, a four-item scale, based on the definition and literature review.

Administrative Innovation was measured by innovating and changing organizational structure and management process that are needed to achieve the firm's major goals. This construct was developed as a new scale, a four-item scale, based on the definition and literature review.

Firm Value was measured by the performance of a business that has grown efficiently, including acceptance from customers, create monetary and non-monetary value, good corporate governance and transparency. This construct was developed as a new scale, a four-item scale, based on the definition and literature review.

#### Control Variables

There were two control variables in this study including firm size and firm age, which may affect the relationships between variable in the conceptual model. The firm size was the operational capital (Rothaermel & Deeds, 2006), which was measured by dummy variable: 0 (50,000,000 Baht or less than) and 1 (more than 50,000,001 Baht), whereas, the firm age referred to the period of time in business (Lau, Yiu, Yeung & Lu, 2008), which was measured by dummy variable: 0 (10 years or less than) and 1 (more than 11 years).

#### Validity and Reliability

Factor analysis and Cronbach's Alpha were used to verify the measurement validity and reliability. Table 1 illustrates the factor loading value and the Cronbach Alpha coefficients. The results show that the factor loading value of each construct were between 0.622-0.924 and higher than the cut-off 0.40. Meanwhile, the Cronbach's Alpha coefficients were between 0.842 and 0.912 and higher than the standard score of 0.70 (Hair, Black, Babin & Anderson, 2010). Thus, all measures seemed to give the internally consistent results. It means that these measures were accepted both the validity and reliability for further analysis.

**Table 1:** Result of Measure Validation

Variables	Factor Loading	Cronbach's Alpha
Spiritual Leadership (SL)	0.731-0.844	0.849
Product Innovation (PI)	0.622-0.892	0.842
Administrative Innovation (AI)	0.791-0.875	0.878
Firm Value (FV)	0.812-0.924	0.912

#### Statistical Techniques

This research employed the ordinary least squares (OLS) regression analysis for examining the hypothesized relationship provided in prior sessions. In order to understand the relationship, the equation was provided as follows.

$$\text{Equation: } FV = \alpha + \beta_1 SP + \beta_2 PI + \beta_3 AI + \beta_4 Size + \beta_5 Age + \varepsilon_1$$

$$\text{Equation: } PI = \alpha + \beta_6 FV + \beta_7 Size + \beta_8 Age + \varepsilon_2$$

$$\text{Equation: } AI = \alpha + \beta_9 FV + \beta_{10} Size + \beta_{11} Age + \varepsilon_3$$

Table 2 shows that all correlations are less than 0.80 and between 0.511-0.789,  $p < 0.01$ . In addition, VIF is 3.430 is lower than the cut-off score of 10 (Hair et al., 2010). Thus, the results reveal no multicollinearity problems in this research.

**Table 2:** Descriptive Statistics and Correlation Matrix

	SP	PI	AI	FV
Mean	4.313	4.078	4.147	4.113
S.D.	0.578	0.686	0.629	0.662
SP	1			
PI	0.511 <sup>**</sup>	1		
AI	0.637 <sup>**</sup>	0.789 <sup>**</sup>	1	
FV	0.638 <sup>**</sup>	0.738 <sup>**</sup>	0.772 <sup>**</sup>	1
FA	-0.052	0.142	0.156	0.040
FS	-0.192	0.104	0.073	0.032

N = 159, \*\*  $p < 0.01$

According to the demographic characteristics of the 159 participants with returned questionnaires, about 48.40% respondents are male and 51.60% are female. Most participants are between 41 and 50 years old, and they are married. The majority of the education levels of the key informants obtained is bachelor's degree or lower. Of the respondents, 50.9% have working experience of more than 15 years. The average monthly income of the respondents at present is more than 90,000 baht. Finally, the majority of the respondents holds a position as the managing director.

The results of demographic characteristics illustrate that the majority of the firm respondents have registered as a limited company and are located in the central region of Thailand. The number of employees in most firms include about 50-100 persons, and the amount of current operational capital is mostly less than 25,000,000 baht. Approximately 34.00 percent of firm respondents have been operating in the auto parts industry over 15 years. Most of the firm respondents have average revenue per year of more than 60,000,000 baht. The majority of firm respondent has total asset between 100,000,001-150,000,000 baht.

**Table 3:** Results of OLS Regression Analysis

Variables	Independent							Dependent Variables	
	Product Innovatio n	Administrativ e Innovation	Firm Value	Firm Age	Firm Size	Adjuste d R <sup>2</sup>	VIF		
Spiritual Leadership	0.336*	0.365*	0.234*	-0.108	0.038	0.667	3.430		
	(0.075)	(0.085)	(0.064)	(0.096)	(0.099)				

Beta coefficients with standard in parentheses. \*p<0.05

First, the results indicate that the spiritual leadership is positively significant in relationship among product innovation ( $\beta_2 = 0.336$ ,  $p < 0.05$ ), administrative innovation ( $\beta_3 = 0.365$ ,  $p < 0.05$ ), and firm value ( $\beta_1 = 0.234$ ,  $p < 0.05$ ). This is consistent with Fry, Matherly and Ouimet (2010) who found that spiritual leadership provides the basis to develop learning, creativity, empowerment, and innovation which are requirements to run firm's excellence in processes and outputs. Furthermore, Hyypia and Parjanen (2013) who found that applying this concept to firm's management can bring about creativity and innovation in the firm. That is why the role of leadership is significant for innovation in firm (Khalili, 2016). Therefore, leaders in firms have to support employees to introduce new ideas and

working approaches continuously in order to create new product and services to the market which are different from their competitor's. Then, firms will be more successful. Spiritual leadership can assist leaders in ethical decision making and help their firms create a healthy balance between profits and people (Fernando, 2011). Furthermore, the spiritual leadership that places importance on working can change the attitudes and behaviors of employees in firm in terms of organizational commitment and organizational satisfaction in the better way. Leaders have to support employees to be creative and show their performance which bring positive outcomes to firm in the present and future. In the meantime, leaders in firm have to develop and improve firms' working approach, process and method to be more modern to cope with new ideas which can be produced. Spiritual leadership in the workplace has generated many positive results which leads to improved performance such as innovation and profit (Duchon & Plowman 2005). Moreover, Cotter, Shivedasani and Zenner (1997) found that leader power has a positive effect on firm value. **Thus, Hypotheses 1a, 1b and 1c are supported.**

**Table 4:** Result of Regression Analysis for the Effects among Consequences of Spiritual leadership

Independent Variables	Dependent Variables	Firm Value	
Product Innovation (PI)		0.751*	
		(0.055)	
Administrative Innovation (AI)		0.786*	
		(0.051)	
Firm Age (FA)		-0.130	
		(0.110)	
Firm Size (FS)		-0.086	
		(0.110)	
Adjusted R <sup>2</sup>		0.596	
VIF		1.030	
Beta coefficients with standard in parentheses. *p<0.05			

Second, the research reveals that product innovation is significant and positively associated with firm value ( $\beta_6 = 0.751$ ,  $p < 0.05$ ). This finding supports the importance of innovation that it is very significant to accomplish successful performance results in the firms (Uslu & Cubuk, 2015). Firms

need to view innovation as a key factor in organizational products and processes to survive in highly competitive markets and changeable and advanced technologies (Baron & Tang, 2011). Therefore, firms have to introduce new products and services that fulfill the needs of customers, and always keep improving and developing the products and services. Furthermore, the firms have to create new ideas of products based on the research and development of the firm. In addition, firm must always attach importance of conducting research and development in order to generate product innovation that can increase firm value. When firms have new product development processes, they can introduce their products to the market to satisfy customer's needs, accommodate them for faster introducing products to markets, get more share markets and increase financial efficiency (Ramaswami, Srivastava & Bhargava, 2009). Therefore, R&D can provide a competitive advantage through differentiation strategies that produce new and better products or services, and then enhance the firm value (Ehie & Olibe, 2010). Developing new products are well recognized in the marketplace can continuously create outstanding financial and non-financial value for the firm. **Thus, H2 is supported**

Finally, the results also show that administrative innovation has a positive influence on firm value ( $\beta_9 = 0.786$ ,  $p < 0.05$ ). This is consistent with Weerawardena (2003) who found that whenever firms change the way of management, firms have transform the new administration by considering innovation as a modification of product, process, service, firm systems, and marketing systems in order to create customer and firm value. Therefore, firms develop and implement new approaches, processes, and practices by researching and developing new management processes in order to respond to changes and uncertainty. They have regularly changed the concepts and principles of working based on stability, growth, survival and sustainability as well. In addition, when the firms have good administrative innovation, their management can be more successful, survival and sustainable than their competitors. The results also show that when firms apply modern administration to manage firms and employees, there will be goal achievement in firms. This is consistent with Gao & Chou (2015) who found that innovation efficiency is positively associated with firm value. **Thus, H3 is supported.**

### Contributions

Our research shows the importance of spiritual leadership for improving firm value and support product innovation and administrative innovation. Firstly, this research also helps managing director or managing partner firm to understand the importance of the consequences of spiritual

leadership that enables firm value. Secondly, guidelines for the development and maintenance of firm value is from the result of the implementation of product innovation and administrative innovation. Therefore, the firms cultivate awareness in self-improvement for employees and have the policy of providing and sending employees for training, knowledge gaining, and keeping pace with competitors that will affect to survival of the firm. Thirdly, this research also helps managing director or managing partner must have a good organizational culture so that employees will be engaged to the firm, love and stay with the firm. Moreover, being a role model in the firm will motivate employees to work effectively with their best performance. Fourthly, managing director or managing partner should show interest in activities that help firms to achieve innovation development, such as wide-open business policy, employee development, and training programs. These are the ways to encourage the employees to innovate new working processes or new products to meet customer needs and expectations and improve working process efficiently. Finally, managing director or partner must also be conscious of the change and growth of technology that can provide many benefits to the firm. Technological advancement can help to revolutionize business processes and practices, improve the efficiency of production functions, create and capture the opportunities in the market, and offer new values to customers.

## Conclusion

The purpose of this research is to investigate the influence of spiritual leadership on product innovation, administrative innovation and firm value. The finding show spiritual leadership have positive significant on product innovation, administrative innovation and firm value. As a result, product innovation and administrative innovation are positive influence on firm value. Firm need innovation to develop their performance in real life changing business environments. These innovation elements cause a direct effect on productivity of work and increase overall performance of a firm (Nasution, Mavondo, Matanda, & Ndubisi, 2011). Spiritual leaders have created a vision, motivation and faith in work for employees by creating a firm culture based on unselfish love. Therefore, it makes employees know that they are paid closed attention by their leaders. Hence, this will be a positive effect on firm (Fry, 2003). Specifically, result support more our hypotheses, showing that samples firms, management style of spiritual leadership and the collective capability of innovation both simultaneously influence firm value. Spiritual leaders will promote and support employees to be creative in their work by introducing new ideas to work together in a systematic way. In addition, being good examples for employees will motivate them to work with their full

effort. Leaders emphasize creativity in the workplace by applying new management tools, new concepts and working methods to their work. Therefore, the firms will continuously develop and consistent with the current situation that was expected to happen in the future. When leaders share with employees meaningful visions, show concerns for their values and behaviors, create a culture of mutual care and guide the employees to work toward the visions, the employees feel that their jobs and lives special and important. This can be resulting in being a good membership and being happy to be parts of the firm. Therefore, they are enthusiastic about creating new products to the markets.

### Suggestion

The Auto Parts SMEs will be more sustainable in the future as it is an indispensable industry in every country. The important thing in the industry is to develop management and production skills to keep pace with leading companies. Therefore, if the small to medium firms can also satisfy the needs of the market, this means the firms will have the opportunity to grow and can become larger firms than their competitors in the future. In addition, they also have to improve their firms continuously. Spiritual leaders are an important part to support innovation within the firm. The important part is that it can be used in SMEs industry and business in the spirit of management. It is a creator of power and confidence. Self-confidence and employees can develop their own potential and make a positive impact on the firm regarding creating new things in the management and survival of the firm in the long run.

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