

# Effect of transformational leadership on strategic human resource management and firm success of Toyota's dealer in Thailand

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## Keywords

Transformational Leadership, Strategic Human Resource Management, Firm Success

## Abstract

*This study investigates effect of transformational leadership on strategic human resource management and firm success of Toyota's dealer in Thailand. Following to the existing literature, transformational leadership is an origin of strategic human resource management that leads to firm success. Therefore, transformational leadership in the dimension of intellectual stimulation is important to create strategic human resource management for the success of firms. The sample of 400 Toyota's dealer businesses in Thailand and statistics used are tested by ordinary least squared regression. Furthermore, response bias, validity and reliability were examined by researcher. These results reveal that intellectual stimulation has significant positive effect on strategic human resource management. Furthermore, intellectual stimulation and inspirational motivation still have has significant relate to firm success by themselves also. Then, strategic human resource management has significant positive effect on firm success respectively. Subsequently, managerial and theoretical contributions, and suggestions for further research are presented.*

## 1. Introduction

During increasing population and a higher intensity of competition in the 21st century, the way in which a company is managed - with regards to transactional leadership and transformational leadership - is the important factor leading to better performance of firms. In the new economic era, human resources that include strategic management styles can be the key to the success of businesses. The human resources department is not the only agency of support as in the past. However, properly conducted strategic human resources management is the key of business success in the modern era. This research studies the concept of transformational leadership in relation to the concept of strategic human resource management for enhanced effectiveness in the production of enterprise (Zhu, Chew, and Spangler, 2005).

When considering the business model of the Toyota car dealership in Thailand, Thairath newspaper online (2014) (<http://www.thairath.co.th/content/439762>) reported that the sales volume of Toyota's cars fell in 2014 when compared with 2013, it was suggested that this was due to the political situation in the early months of the year, and the first-car project of the Thai government having finished. The research of Loshali and Krishnan (2013) focuses on transformational leadership affecting the performance of a firm. Leading researchers believe that business car dealers such as the Toyota brand that have high transformational leadership of executives through the use of strategic human resource management processes will have a positive effect on the performance of Toyota's car dealership in Thailand. Moreover, the literature review reveals that there are few studies describing the relationship between transformational leadership towards strategic human resource management, and firm success of Toyota's car dealership in Thailand.

For the reasons mentioned above, this research studies the effect of transformational leadership on strategic human resource management when considering firm success of Toyota's

dealership in Thailand. The purpose of this research is to examine the relationship between the effects of transformational leadership and strategic human resource management on the success of Toyota's car dealership. The results of this study can be used as guidance for administrating the development of Toyota's dealership in Thailand in relation to the planning, development and deployment of business operations. Furthermore, these data can be used to improve and develop the Toyota dealership, and help to alleviate the problem of the current situation of the Toyota dealer in Thailand, and to enhance the ability of the company to effectively compete against other firms.

## 2. Literature Review and Hypotheses Development

The conceptual model (figure. 1) demonstrates the relationships between transformational leadership, strategic human resource management and firm success. In this study, strategic human resource management consists of six activities, namely; selection, training, compensation, incentive, participation, information sharing, and performance evaluation. Moreover, transformational leadership includes of four dimensions, namely; idealized influence/charisma, inspirational motivation, intellectual stimulation, and individual consideration.

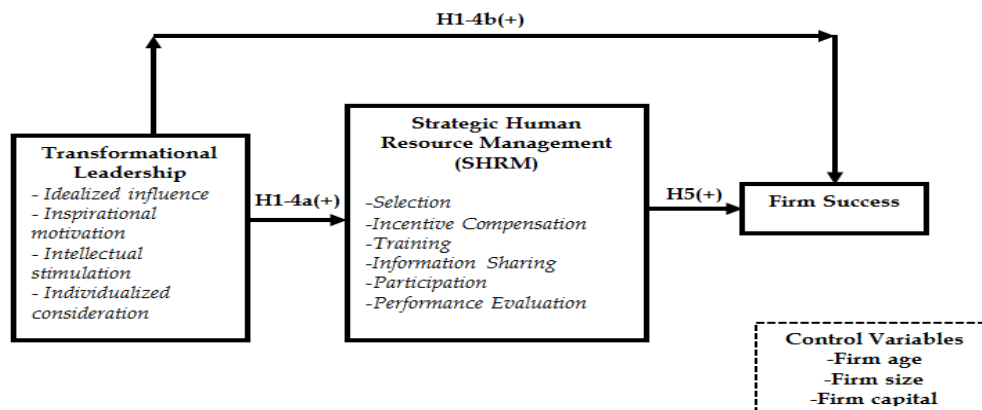


Figure1 : The conceptual model of linking transformational leadership and strategic human resource management on firm performance

### 2.1 Transformational Leadership (TL)

Transformational leadership is a perspective that inspires employees to work towards a vision or goal for their respective organization, which has been created, communicated and modeled by the appropriate leaders (McShane and Von Glinow, 2009).

Transformational leadership theory was strongly influenced by James McGregor Burns in 1978. Burns contrasted transformational leadership with transactional leadership. The transformational leadership model stresses personal charisma, acting as a role model, and being individually considerate and intellectually stimulating towards staffs. It associated in the beneficial way with a wide range of personal and organizational performance (Bass, 1985; Burns, 1978). Transformational leaders lead a positive effect on the performance of staffs of the firm by increasing the cohesiveness, commitment, motivation and trust, which affects the performance results. Moreover, comparative studies reveal that transformational leadership behaviors, when compared to transactional behaviors, have a positive effect on staff's effectiveness in an array of firm environments (Waldman, Ramirez, House, and Puranam, 2001).

### Transformational Behaviors

The four behaviors of transformational leadership are based on the full range of leadership, which consists of individualized consideration, intellectual stimulation, inspirational motivation, and role and idealized influence.

1. Idealized influence is concerned with the leader creating loyalty, confidence and identifying with the followers. This is done by setting an example of courage and dedication, and making self-sacrifice in order to make benefit to the followers of the organization (Yukl, 2010).

2. Inspirational motivation is a method in which the transformational leader shares his or her vision in order to inspire followers to be more effective and efficient when performing their duties. Transformational leadership know how to use inspirational motivation to communicate the 'can-do' attitude about achieving organizational goals, by providing a purpose for the task and the goals that need to be met. If the stakeholders have a purpose to work towards, they will work harder to reach the set goals.

3. Intellectual stimulation is behavior that increases follower awareness of problems; intellectual stimulation influences followers to view problems from a new facet. The leader should be seen to provide support, encouragement and training to his or her followers (Yukl, 2010).

4. Individualized consideration takes place when the leader delegates projects to stimulate learning experiences, provides coaching and teaching, and shows respect to each follower as an individual. Individualized consideration includes consideration of the followers' needs, providing coaching, mentoring, effective communication, and paying attention to the issues and requirements of the individual people whom the leader leads (Lowe et al., 1996).

Organization can make employee-based competencies through HR practices. HR practices are the most efficient tool that firms can utilize in order to manage the set of social relationships that held by firm employees. Transformational leaders can adopt a long-term perspective rather than focusing specially on the current needs of their followers or themselves, they also focus on future needs; rather than being concerned only with short-term problems and opportunities facing the organization, they also concern themselves with long-term issues; rather than viewing seemingly small issues that are linked to the company as discrete, they view them from a holistic orientation and act upon them accordingly (Dubinsky, Yammarino, Jolson, and Spangler, 1995). Kirkpatrick and Locke (1996) reveal that the content of charismatic communication style (vision and task cues) led to higher performance of both quality and quantity of production. Leader's enunciation of vision emphasizing quality improved followers' attitudes and perception, and that task cues increased followers' understanding of the task as well as creating a certain cerebral invigoration. Baum, Locke, and Kirkpatrick (1998) found the further support for these findings in their research. The authors concluded that vision and vision communication have positive effects upon overall company achievements. Moreover, Jung, Chow, and Wu (2003) showed that there exists a link between transformational leadership and positive organizational innovation. In addition, transformational leadership has significant and positive relationships with both the acceptance of employees and an innovation-supporting firm climate. Then, Jung and Sosik (2002) lead a study to examine whether transformational leadership enhance group effectiveness by empowering followers to perform their job independently from the leader, the authors highlight the importance of cohesiveness in performing collective tasks, and the realignment of followers' values to create a more cooperative group. Results revealed that transformational leadership was positively related to empowerment, group cohesiveness, and group effectiveness. Moreover, collective-efficacy was improved when workers were trusted to do their tasks independently, this, in turn, enhanced

group members' perceived group effectiveness. Then, Nandal and Krishnan (2000) suggest that three of the five factors of charismatic leadership were positively related to lack of confusion of roles, which in turn was positively related to staffs individual confidence.

Transformational leadership includes creating a vision and communicating that vision to its followers. Human resource management plays a critical role in this communication process between the leader and the followers. For making the vision to become a reality, the leader has to develop and rely on HR practices that are aligned with the vision. Tactically delivered HR that is aligned with the vision will provide followers with a shared guideline on how to achieve the vision. Moreover, Zhu et al. (2005) revealed that human-capital-enhancing human resource management fully conciliated the relations between CEO transformational leadership and subjective assessment of organizational performance. Then, Sarros, Cooper, and Santora (2008) suggested that a competitive, performance-oriented organizational culture moderates the relationship between transformational leadership and the environment for enhanced firm innovation.

As a result, this research implies that transformational leadership will have a positive effect on strategic human resource management and firm success. Thus, we hypothesize the relationship as follows:

**Hypothesis 1: Idealized influence is positively related to (a) strategic human resource management, (b) firm success.**

**Hypothesis 2: Inspirational motivation is positively related to (a) strategic human resource management, (b) firm success.**

**Hypothesis 3: Intellectual stimulation is positively related to (a) strategic human resource management, (b) firm success.**

**Hypothesis 4: Individualized consideration is positively related to (a) strategic human resource management, (b) firm success.**

## **2.2 Strategic Human Resource Management (SHRM)**

The function of the HR department has changed a lot of late. HR professionals have come to be seen as important business contributors. They are expected to enrich the business strategy through their dominion of expertise (Conner and Ulrich, 1996). It is important that the HR strategy of the organization is coordinated accordingly to ensure not only the firm's success, but also its maintenance. The inclusion of a HR strategy into a business strategy provides good foundations for enabling the HR function to support and administer the strategic plan to obtain a competitive advantage. This design creates an opportunity for the maximization of human capital, and a reduction of inefficient labor and financial investment, thus eventually maximizing overall profitability (Collins, and Clark, 2003; Ramlall 2003). Organizations that strategically coordinate their HR and firm strategies are more profitable. For HR strategies to increase profits, they have to be documented and integrated into the business strategy, they have to include people practices and practices to distribute the facets of the business strategy throughout the firm. In addition to this, the HR department must be correctly perceived as a part of the leadership team that can positively influence the business (Steven, Anthony, Mark, and Brian, 1999).

Therefore, it is likely that strategic human resource management has a positive effect on firm success. Hence, the hypothesis is proposed as follows:

**Hypothesis 5: Strategic human resource management is positively related to firm success.**

## **2.3 Firm Success**

Firm success in this research refers to the acceptance of the customers opinion of a firm as being a professional business, the continuous increase of new customers, the continuous growth of the operation as a whole, the reduction of staff turnover rate, and the continuous growth of net profit (Schutjens and Wever, 2000).

### 3. Research Methods

#### 3.1 Sample Selection and Data Collection Procedure

This study selects from Toyota's dealer businesses in Thailand as the population and sample amount 400 businesses. The database is drawn from the Toyota Motor Thailand database in March, 2015. A mail survey procedure via the questionnaire was used for data collection. The key participants in this study were chief executive officers (CEO), presidents/managing directors /or executive directors. The questionnaire was sent to Toyota's dealer in Thailand. With regard to the questionnaire mailing, the valid mailing was 400 surveys; the completed and usable surveys were 106.

Finally, to test potential and non-response bias and to detect and consider possible problems with non-response errors, the assessment and investigation of non-response-bias was centered on a comparison of first and second wave data as recommended by Armstrong and Overton (1977). The t-test statistics were used to test the difference between early and late responses in various firm characteristics which consist of the business type, location of firm, capital investment or operation capital, average sales revenues per year; the results did not find any significant differences between the two groups. Thus, non-response bias does not pose a significant problem for this study.

#### 3.2 Measurements

In this study, all constructs in the model are measured with multi-item scales. Each of these variables were measured on five-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree), except demographic and control variables. The measurements of dependent, independent, mediating, and control variables are clarified as follows:

*Transformational Leadership (TL)* is main construct of this study. It can be defined as the person who can motivate people for working more. This person can build the confidence of their staff. Moreover, this leadership tries to build the success of their colleagues or even customers. They can bring change, innovation and the ability of the employee of the organization as well as to be the prototype for others to follow, both in work and personal life (Burns, 1978; Bass, 1997). It is measured by sixteen-item scale which is classified into four dimensions: idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration.

*Idealized Influence (II)* is measured by four-item scale, and it is defined as the leader creating loyalty, confidence and identifying with the followers. This is done by setting an example of courage and dedication, and making self-sacrifice in order to benefit the followers of the organization (Yukl, 2010).

*Inspirational Motivation (IM)* is measured by four-item scale, and it is defined as a method in which the transformational leader shares his or her vision in order to inspire followers to be more effective and efficient when performing their duties. Transformational leaders know how to use inspirational motivation to communicate the 'can-do' attitude about achieving organizational goals, by providing a purpose for the task and the goals that need to be met. If the stakeholders have a purpose to work towards, they will work harder to achieve the set goals (Yukl, 2010).



*Intellectual Stimulation (IS)* is measured by four-item scale, and it is defined as behavior that increases follower awareness of problems; intellectual stimulation influences followers to view problems from a new perspective. The leader should be seen to provide support, encouragement and training to his or her followers (Yukl, 2010).

*Individualized Consideration (IC)* is measured by four-item scale, and it is defined as taking place when the leader delegates projects to stimulate learning experiences, provides coaching and teaching, and shows respect to each follower as an individual. Individualized consideration includes consideration of the followers' needs, providing coaching, mentoring, effective communication, and paying attention to the issues and requirements of the individual people whom the leader leads (Lowe et al., 1996).

*Strategic Human Resource Management (SHRM)* is measured by six-item scale, and it is defined as the link between human resource management with the strategic objectives of the business. Strategic human resource management will improve their performance and encourage innovation and change to the organization (Truss and Gratton, 1994). In the perspective of strategic human resource management, the staff resource is strategic and essential tool to enable organizations with better performance (Purcell, 1993; Bennett et al, 1998).

*Firm Success (FS)* is measured by five-item scale, and it is defined as the success of business operations. This scale measure is adopted from (Pongpearchan and Mumi, 2012).

*Firm Size (FSi)* affect the ability to redefine, adjust, or renew firm's strategy (Baden-Fuller and Volberda, 1997). Large firm tend to rapidly renew firm's strategy than those small ones (Jansen et al., 2005). It was measured by the number of employees in a currently registered full time of the firm.

*Firm Age or Firm Experience (FA)* is measured by the number of the years that the firm has operated in businesses (Kotabe et al., 2011; Patel et al., 2012). Traditional firms have experience in monitoring environmental changes faster than new firms and more appropriate to improve creative and innovative products that create a competitive advantage and firm survival. Mature firms tend to renew strategy or renew organization more than those younger firms (Baden-Fuller and Volberda, 1997).

*Firm Capital (FC)* is measured as the money or asset on investment operation in organization. According to Leiblein et al. (2002), large firm may also have greater market power or positional advantages compared to their smaller rivals, and larger firms often have superior financial.

### 3.3 Methods

Factor analysis was firstly utilized to assess the underlying relationships of a large number of items and to determine whether they can be reduced to a smaller set of factors. The factor analysis was conducted separately on each set of the items representing a particular scale due to limited observations. With respect to the exploratory factory analysis, this analysis has a high potential to inflate the component loadings. Thus, a higher rule-of-thumb, a cut-off value of 0.40, was adopted (Nunnally and Bernstein, 1994). All factor loadings are greater than the 0.40 cut-off and are statistically significant. The reliability of the measurements was evaluated by Cronbach alpha coefficients. In the scale reliability, Cronbach alpha coefficients are greater than 0.70 (Nunnally and Bernstein, 1994). The scales of all measures appear to produce internally consistent results; thus, these measures are deemed appropriate for further analysis because they express an accepted validity and reliability in this study. Table 1 presents the results for both factor loadings and Cronbach alpha for multiple-item scales used in this study.

Items	Factor Loadings	Cronbach Alpha
Idealized Influence (II)	0.740-0.892	0.858
Inspirational Motivation (IM)	0.799-0.910	0.860
Intellectual Stimulation (IS)	0.775-0.929	0.870
Individualized Consideration (IC)	0.784-0.870	0.834
Strategic Human Resource Management (SHRM)	0.609-0.906	0.876
Firm Success (FS)	0.598-0.889	0.854

Table 1 : Results of Measurement Validation

### 3.4 Statistical Techniques

The ordinary least squares (OLS) regression analysis is used to test and examine all hypotheses following the conceptual model. Then, the aforementioned variables play significant roles in explaining the research relationships. Because all dependent variables, independent variables, moderating variable, and the control variables in this study were neither nominal data nor categorical data, OLS is an appropriate method for examining the hypothesized relationships (Hair, 2010). With the interest of understanding the relationships in this study, the research model of these relationships is depicted as follows:

$$\text{Equation 1: } SHRM = \beta_{01} + \beta_{11}II + \beta_{21}IM + \beta_{31}IS + \beta_{41}IC + \beta_{51}FA + \beta_6FS_i + \beta_7FC + \varepsilon_1$$

$$\text{Equation 2: } FS = \beta_{02} + \beta_{82}II + \beta_{92}IM + \beta_{102}IS + \beta_{112}IC + \beta_{122}FA + \beta_{132}FS_i + \beta_{142}FC + \varepsilon_2$$

$$\text{Equation 3: } FS = \beta_{03} + \beta_{153}SHRM + \beta_{163}FA + \beta_{173}FS_i + \beta_{183}FC + \varepsilon_3$$

### 4. Results and Discussion

Table 2 exhibits the descriptive statistics and correlation matrix for all variables. With respect to potential problems relating of multicollinearity, variance inflation factors (VIFs) were used to grant information on the extent to which non-orthogonality among independent variables inflates standard errors. The VIFs range from 1.007 to 4.081, well below the cut-off value of 10 recommended by Neter et al. (1985), meaning that the independent variables are not correlated with each other. Hence, there are no substantial multicollinearity problems confronted in this study.

	II	IM	IS	IC	SHRM	FS	FS <sub>i</sub>	FC	FA
Mean	4.448	4.302	4.123	3.955	4.263	3.942	0.620	0.510	0.710
S.D	0.588	0.627	0.673	0.704	0.606	0.672	0.487	0.502	0.457
II									
IM	.781**								
IS	.587**	.735**							
IC	.052	.049	.066						
SHRM	.565**	.599**	.693**	-.056					
FS	.318**	.441**	.419**	.005	.332**				
FS <sub>i</sub>	.000	.175	.032	.021	-.094	-.029			
FC	-.034	.021	-.063	.014	-.177	-.065	.131		
FA	.298**	.207*	.032	-.023	.113	.227*	.141	-.009	

\*p&lt;0.05, \*\*p&lt;0.01

Table 2: Descriptive Statistics and Correlation Matrix

Independent Variables	Dependent Variables		
	Model 1 SHRM	Model 2 FS	Model 3 FS
II	0.164 (0.114)	-0.202 (0.147)	
IM	0.114 (0.135)	0.408** (0.175)	
IS	0.514*** (0.102)	0.233* (0.131)	
IC	-0.099 (0.067)	-0.012 (0.087)	
SHRM			0.306*** (0.094)
FSi	-0.241 (0.147)	-0.271 (0.190)	-0.056 (0.193)
FC	-0.248 (0.136)	-0.092 (0.175)	-0.011 (0.187)
FA	0.081 (0.158)	0.466 (0.204)	0.429** (0.205)
Adjust R <sup>2</sup>	0.528	0.216	0.113

\*p<0.1, \*\*p<0.05, \*\*\*p<0.01

Table 3 : Results of regression analysis

Table 3 presents the results of OLS regression analysis of the relationships among four dimensions of transformational leadership, strategic human resource management, and firm success. Only one dimension of transformational leadership that is intellectual stimulation has significant positive effect on strategic human resource management ( $b_3=0.547$ ,  $p<0.01$ ). **Thus, Hypothesis 3a is supported whereas, Hypothesis 1a, 2a and 4a are not supported.** The result of this study consistent with Loshali and Krishnan (2013) revealed that transformational leadership was significantly positively related to strategic HR. However interestingly in the context of Toyota's dealer of Thailand, only one dimension of transformational leadership as intellectual stimulation influence with the capability of strategic human resource management. Furthermore in the relation of transformational leadership and firm success, inspirational motivation and intellectual stimulation has significant positive effect on firm success ( $b_9=0.408$ ,  $p<0.05$ ;  $b_{10}=0.233$ ,  $p<0.10$ ). The consistent with the study of Loshali and Krishnan (2013) find that transformational leadership have positive effect on firm success. **Hence, Hypothesis 2b and 3b is supported whereas, Hypothesis 1b and 4b are not supported.** However, these results reveal that only two dimensions of TL as inspirational motivation and intellectual stimulation effect on firm success in the context of Toyota's dealer in Thailand.

Hypothesis 5 proposed strategic human resource management would be positively associated with firm success. As shown in Table 3, indicates that strategic human resource management is positively and significantly related to firm success ( $b_{15}=0.306$ ,  $p<0.01$ ). **Hence, Hypothesis 5 is supported.** According with Loshali and Krishnan (2013), and consistent with Hamid (2013) provided that strategic human resource management affect the firm success.

## 5. Contributions and Directions for Future Research

### 5.1 Theoretical Contributions and Directions for Future Research

This study proposes the escalation understanding of relationship among the four dimensions of transformational leadership and firm success via strategic human resource management. For progress the field theoretically, this research attempted to concentration on the above-mentioned relationships of Toyota's dealer businesses in Thailand. Therefore, the need for further research is obviously seen that should shift to a variety of sample from the other sectors in order to obtain a precise and reliability of this framework offering. Interestingly, the contribution of theoretical was spread the extent of the dimension of transformational



leadership and empirically testing with consequence constructs which distinctive aspect further previous study.

## 5.2 Managerial Contributions

This research also helps administrators justify and identify the key components that may be more critical in the competitive market. From a managerial and practical contribution, many important insights can be received from this research. This research can facilitate CEO's or the general executive, particularly in Toyota's dealer businesses to perceive how their organization can complete strategic human resource management by using transformational leadership and achieve firm success more than their competitors. Extension competitiveness of organization is becoming a basis for firm survival. Hence, transformational leadership and strategic human resource management had become an important topic for executive in business sector. Consistence to the results of this study, show that transformational leadership in the dimension of intellectual stimulation has significant relate to strategic human resource management and leading to the success of firm. Moreover, intellectual stimulation and inspirational motivation still have has significant relate to firm success by themselves also. This empirical study helps to formulate solutions in business problems that provide the basis of survival and successful for organization. Therefore, to maximize the benefit of firm's strategy, CEO's should try these resources to boost effectiveness and create new opportunities in the competitive advantage.

## 6. Conclusion

This paper discusses transformational leadership in the perspective of Toyota's dealer businesses in Thailand. Coping with an uncertain environment may incur from the consequences of the political situation in the early months of the year, and the first-car project of the Thai government having finished. According to, these the external factor are direct impact on organization survival. The aim of this research indicates that to study the relationships among four dimensions of transformational leadership and firm success via strategic human resource management. The model testing is collected data from mail survey for 400 informants of Toyota's dealer businesses in Thailand. Interesting, this study finds that intellectual stimulation has significant positive effect on strategic human resource management. Furthermore, intellectual stimulation and inspirational motivation still have has significant relate to firm success by themselves also. Then, strategic human resource management has significant positive effect on firm success respectively.

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