

THE EFFECT OF POTENTIAL ABSORPTIVE CAPACITY AND INNOVATION ON COMPETITIVE ADVANTAGE: A MODEL FROM PARTICIPATIVE LEADERSHIP PERSPECTIVE

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ABSTRACT

Increasing uncertain environmental conditions and changing business environment have inevitably pushed organizations to quest for knowledge. The new knowledge obtained by the end of this quest moves an organization to further position from the current one. Similarly, organizations should adapt themselves based on knowledge in order to survive within the context of changing customer demands and developing technologies. This adaptation, herewith, often requires product/service, process and method innovation that enable the organizations to have a competitive advantage over the others. The aim of this study is to exert the effect of participative leadership style on potential absorptive capacity, which means knowledge acquisition and assimilation, innovation and competitive advantage by addressing participative leadership style on organizational level rather than individual and team level, and also to discuss the mediating roles of potential absorptive capacity and innovation between participative leadership styles and competitive advantage

Keywords: *Participative leadership, potential absorptive capacity, innovation, competitive advantage*

INTRODUCTION

As clearly stated by the researchers, competition has been getting more and more challenging as time goes by. Organizations have some difficulties to gain competitive advantages and especially sustain them (Fosfuri and Tribo, 2008). In this condition, the most important issue for organizations that need to gain competitive advantage and improve their performance is knowledge, which is the intangible asset (Yu, 2013) and innovation (Aragon-Correa, Garcia-Morales, Cordon-Pozo, 2007; Liao and Chen, 2007). Because of the constraints imposed by environmental uncertainty, competition and the speed of change, focusing on knowledge is a must (Jansen, Bosch and Volberda, 2005). The quicker an organization learns, acquires and internalizes new and relevant knowledge, the more the organization's strategic capacity increases by providing them to continue for their competitive advantages and improve their business results (Garcia-Morales, Jimenez-Barrionuevo and Gutierrez-Gutierrez, 2012). Promoting innovation and improving performance of the organization increasingly depend on external knowledge and information sources (Cassiman and Veugelers, 2002). As for the ability of exploitation from external knowledge, it is the most crucial component of innovation capability (Cohen and Levinthal, 1990). For the more innovative outcomes, the high degree of critical capacity, talent, new and related knowledge is inevitable (Senge, 1990).

The need of the organizations for knowledge and innovation to achieve superior performance has increased the responsibility of leaders. Leaders play a major role for directing and helping organization to cope with the challenges of continuously developing technology and knowledge systems (Crawford, 2003). The attitudes and behaviors of leaders are especially critical in terms of affecting final outputs of the organization. Leader's participative approach is a determining factor in achieving this role by taking a high degree of interest of knowledge creating, knowledge sharing, building and reinforcing a knowledge-based organizational climate; providing an atmosphere of trust, tolerating new ideas and opinions, and stimulating subordinates to generate new knowledge. According to Crawford (2003), leaders have an active role on knowledge management. For example, leaders establish relationships with external

knowledge providers, and manage these relations and support the ideas of employees to improve knowledge production processes. Similarly with Oke, Munshi and Walumbwa (2009), organizations need the correct leadership style to promote innovation effectively. Leaders, having an important role of forming potentials of the organization to produce innovation by encouraging a favorable environment and taking decisions, support the creation and usage of the knowledge successfully (Aragon-Correa et al., 2007).

In this study, we focused on three variables considering contributing to an organization's competitive advantage. These are participative leadership style (PLS), potential absorptive capacity and innovation. As indicated in the studies done before, the behavior, attitude and approach of the participative leadership style support individuals and teams within the organization in many aspects. Besides this, we consider the organizational routines, processes, and structures created by a leader to provide this support. On the one hand, this allows acquiring and assimilating of new knowledge (PACAP), on the other hand, it offers significant opportunities for innovation. Knowledge and innovation are among the most important resources of an organization's competitive advantage (Liao and Liu, 2008). To renovate the knowledge base and produce innovation, organizations will be more adaptive and successful compared to the other. In the context of this study, another issue that we want to emphasize is the mediating role of potential absorptive capacity and innovation between participative leadership and competitive advantage. In other words, this means that the knowledge obtained through leadership and innovation conducted by leaders can be converted to organizational success.

In the following sections, a literature review of participative leadership, potential absorptive capacity, and innovation is presented. Then, based on the literature, the propositions we anticipated are presented through explaining the relations (direct and mediator) between these variables. The last section is devoted to the conclusion, further researches, and limitations.

METHODOLOGY

In this study, the variables have been explained based on the literature within the scope of proposed model firstly. Especially, it has been tried to emphasize the organizational outputs (such as organizational innovation, potential absorptive capacity, competitive advantage) of participative leadership rather than individual and team outputs. Indeed, the literature has an absence of this side of participative leadership style. Second, in the framework of the studies in the literature, demonstrating the causality and explaining the supporting arguments of the relationships within the scope of the proposed model, propositions have been presented. Because this study is a conceptual study, the relationships have not been tested. But, in the further research section, it has been emphasized to test these relationships empirically.

LITERATURE REVIEW

Participative Leadership

Generally accepted definition of participative leadership in the literature refers to making decision jointly and shared influence between a leader and his/her subordinates (Koopman and Wierdsma, 1998). Participative leaders allow subordinates to affect the decisions requesting or demanding input and contribution (Ogbonna and Harris, 2000). These inputs especially include the usage of new ideas from subordinates (Somech, 2006). At the same time, Wagner (1994) refers this as a balancing approach between superiors and subordinates. Participation, in this sense, balances the influence between leaders and subordinates in terms of information-processing, decision making, and problem solving efforts. For instance, while doing this, leaders include employees by creating an atmosphere of dialogue, expecting solutions for problems or new quests from them, eliciting the ideas and the suggestions of them and ensuring feedback (Sagie, Zaidman, Amichai-Hamburger, Te'eni and Schwartz, 2002).

Participative leaders encourage employees to seek the necessary knowledge in order to find and create effective business processes (Sagie et al., 2002) and monitor their performance. These leaders provide the necessary conditions and facilities so that employees can gain and share knowledge, support and advocate their ideas (Politis, 2001). Sashkin (1984a) highlighted the four dimensions of participation. First, employees can participate in setting goals. Second, they can be involved in making decision among alternative actions. Third, employees can participate in problem solving (this also includes choosing

among alternatives as well as producing alternative actions). Finally, participation makes it possible to achieve changes (this also includes organizational developments) in the organization.

The participative approach helps the communication channels be open; helps subordinates discover their tasks and the knowledge related to their tasks, and finally clarifies the obscure points (Somech, 2006). Participative leaders consult to employees, request their suggestions, consider their ideas before making a decision (Chen and Tjosvold, 2006) and then encourage them to express their own interests and concerns (London, Larsen and Thisted, 1999). These leaders listen to employees, take more interest, support (Lam, Huang and Chan, 2015), and encourage them to provide input and share more information with them (Davis, 2001). Participative leaders also contribute to renew the knowledge base that employees have. Participation generally requires an extra effort from employees to respond to their leaders and invest the sources that develop themselves (Lam et al., 2015). Thus, they renovate their knowledge base by seeking for exploratory new knowledge.

Within the framework of explanations above, it is observed that the literature emphasizes the behaviors, attitudes, and characteristics of participative leaders and especially focuses on individual and team level. In other words, literature widely has focused on the effects of participative leadership on individual and team outcomes such as quality of work life, motivation, satisfaction, organizational commitment, commitment to the decisions, performance, job satisfaction, skill development and so on rather than organizational outcomes (Barnard, 1938; Sashkin, 1984b; Sagie and Koslowsky, 1996; Sagie et al., 2002; Somech, 2003;). However, the literature is limited about organizational components that leader configures, uses and develops to achieve these mentioned relations. According to our findings, leaders ensure the highest level of this contribution through routines, processes and structures such as effective and constantly open communication channels, knowledge strategies ensuring the obtaining, sharing and flowing of the knowledge, knowledge systems, learning culture, formal or informal dialogue environment. These, on the one hand, make it possible for participation, on the other hand, may be a factor in organizational success by ensuring important outcomes, which bring to organization direct strategic effectiveness and competitive advantage or secondary outcomes that result in effectiveness and advantages.

Potential Absorptive Capacity

Absorptive capacity is defined as “the ability of a firm to recognize the value of new, external information, assimilate it, and apply it to commercial ends” (Cohen and Levinthal, 1990). Similarly, Lane, Koka and Pathak (2006) describes absorptive capacity as learning, developing and assimilating new knowledge required for competitive advantage through processes. The basic idea of absorptive capacity which is critical for innovation capacity is that an organization needs relevant prior knowledge to assimilate and use new knowledge (Cohen and Levinthal, 1990). Therefore, absorptive capacity allows organizations to have better understanding of current internal knowledge flow as well as utilization external knowledge more innovative way by providing the flow of external knowledge to the organization. If an organization does not have the ability to identify, assimilate, and apply new and relevant external knowledge, then it will not receive any benefit, especially innovative, from external knowledge (Kostopoulos, Papalexandris, Papachroni and Ioannou, 2011).

Zahra and George (2002) divided absorptive capacity into two sub-groups; “potential absorptive capacity and realized absorptive capacity”. While potential absorptive capacity includes the capacity of acquisition and assimilating new knowledge, realized absorptive capacity includes the capacity of transformation and exploitation. Potential absorptive capacity requires a creative and flexible culture which is open to change however realized absorptive capacity requires a culture based on high level of stability, order, and control (Leal-Rodriguez, Ariza-Montes, Roldan and Leal-Millan, 2014). In this study, we focused on potential absorptive capacity that shows the acquisition and assimilation capacity of absorptive capacity. Because, in the increasing uncertain environmental conditions, knowledge is one of the critical sources of competitive advantage of the organization (Liao, Fei and Liu, 2008), and the future success depends on the ability to continuously renew knowledge assets (Castro, Delgado-Verde, Navas-Lopez and Cruz-Gonzalez, 2013). Zahra and George (2002) emphasize that potential absorptive capacity is very important in terms of acquiring and assimilating relevant external knowledge which is necessary for an organization. According to them, potential absorptive capacity consists of two sub dimensions; knowledge acquisition and assimilation. Knowledge acquisition indicates the identification and

acquisition of externally produced knowledge that is critical for organization's own operations. Knowledge assimilation indicates the routines and processes that enable analyzing, processing, interpreting and understanding of the knowledge acquired from external sources. In a similar vein, Lane et al., (2006) have identified potential absorptive capacity as exploratory learning, have explained it as recognizing and understanding the new external knowledge, and they have particularly highlighted the knowledge that organization has. According to this view, understanding the new external knowledge obtained as a result of the quest for the interest of the organization depends on the available knowledge within the organization. Having the stronger potential absorptive capacity, organizations are more open to external knowledge and they can comprehend it quickly.

Potential absorptive capacity is also necessary to identify, notice, eliminate, and comprehend new and relevant external knowledge within the boundaries of the organization. Having the stronger potential absorptive capacity, organizations can be much more adaptive to renovate their knowledge stock by noticing and assimilating the knowledge about the changes, innovations, and trends in the external environment (Zahra and George, 2002). In addition to this, by utilizing both internal and external knowledge, organizations can develop new abilities and components (Fosfuri and Tribo, 2008). These capabilities enable the organization to adapt to the volatile environment and keep their knowledge-based resources timely (Zahra and George, 2002).

Innovation

The literature regarding innovation widely indicates that innovation is a new idea or behavior (Jimenez-Jimenez and Sanz-Valle, 2011). For example, while Oke et al.,(2009) define innovation as researching to find the new ways of the new things, Van de Ven (1986) states that innovation is about to identify and utilize the opportunities to build new products, service or business applications. Organizations which want to use the opportunities will strive to absorb and appreciate new ideas (Hurley and Hult, 1998).

Innovation is not just a concept with tangible results. For an organization, innovation may be a product or service as well as a new production technology, operation procedure or management strategy (Liao et al., 2008). The most critical issue related to innovation is implementation. Being creative, generating new ideas and behaviors, identifying opportunities, exploring new things and making inventions are all very important but none of them is enough for innovation. To consider these activities as an innovation, all of them should be implemented and commercialized completely (Oke et al., 2009). Therefore, innovation is a complex activity converting new knowledge to the commercial outputs (Fosfuri and Tribo, 2008).

Theoretical Background

Participative Leadership and Potential Absorptive Capacity

Participative leaders encourage organization-wide communication, negotiations, and knowledge sharing and also develop and support interactive processes for obtaining knowledge (Politis, 2011). These leaders keep all communication channels open by using them actively (Somech, 2006). According to Cohen and Levinthal (1990), emphasizing the importance of communication, an organization's absorptive capacity depends on communication structure and effective communication either between the organization and the external environment or between the subunits in the organization. Absorptive capacity, as a result, is closely associated with the presence of routines and processes within the organization which enable the organization to transfer learning from individual to the organizational level, share and communicate (Lane et al., 2006). In addition to this, Politis (2011) stated that such a leadership style providing mutual trust and respecting the ideas and feeling of employees is positively related to attitudes and behaviors in terms of the acquisition of knowledge. Participation also stimulates the change and integration of the knowledge (Somech, 2005).

When a leader gives subordinates the chance to express their ideas, opinions and suggestions, they will probably look for the ways to learn work-related skills and abilities. The learning mechanism triggered by the participative leadership maybe ensures the necessary environment for employees to explore the knowledge in the future (Huang, Liu and Gong, 2010). Because participation requires the employees to exert extra effort in order to provide input. Particularly, this effort quests towards new and relevant knowledge (Lam et al., 2015). Similarly, Somech (2005) stated that participative leaders support employees to explore new opportunities and challenges in order to learn by obtaining, sharing, and

combining knowledge. Sagie et al., (2002) also refer to the cognitive variables by indicating the results of participative style such as the sharing of knowledge and resonance of ideas.

Leaders allow the circulation of the ideas throughout a network and provide the opportunity to discover, investigate, and share the knowledge in order to overcome problems and new things (Landrito and Sarros, 2013). This new knowledge obtained as a result of this search constitutes the input for absorptive capacity. Indeed, as Lane et al., (2006) stated, the functions of absorptive capacity make it possible to search widely the knowledge that helps organization meet their specific needs. In this regard, participative leaders can play an effective role in order to achieve potential absorptive capacity by establishing necessary organizational conditions that enhance seeking, acquiring, sharing, making sense and appreciating knowledge. In their study, Jansen et al., (2005) found that participation was related positively to the acquisition of knowledge and added that participation in the decisions increases the acquisition of new external knowledge. Following these statements, we propose that;

Proposition 1 (P1): Participative leadership style is positively related to potential absorptive capacity.

Participative Leadership and Innovation

Leadership and the leader's style are the most important factor on an organization's innovation (Aragon-Correa et al., 2007). Because the leader directs if there is need for direction or provides and supports participation if there is a need for participation (Caudell, 1994). If a leader can decide directly to introduce new knowledge into the organization and set goals, and encourage innovative initiatives of employees (Aragon-Correa et al., 2007) providing knowledge that is an important input for innovation. Nonaka and Takeuchi (1995) have stated that innovation is an intensive process because it involves implementation as well as relationships among the members of the organization, collective organizational knowledge and different form of these. Innovation is the prerequisite of knowledge management and knowledge creation (Liao et al., 2008) and participative leaders can accomplish this through their attitudes and behaviors. For instance, Sarin and McDermott (2003) have found that participative leadership has a positive effect on innovation. West and Wallace (1991) denote that innovative organizations have some elements such as open communication, knowledge sharing, the climate of mutual trust, etc. Working at such an organization, employees can easily and wishfully use their skills and abilities for innovative activities.

Creative activities provide an important contribution to achieving innovation. Creative works, by its very nature, often require receiving input from a wide range of individuals. For example, in a study on leadership, it has been found that employees develop more alternatives under the participative leadership and also it has been suggested that participative leadership may be more appropriate for hypothetical tasks (Leana, 1985). Especially the existence of participative decision-making and open communication channel can help reduce the obstacles (Davis, 2001). So, this creates organizational environment that enables sharing, interpreting, eliminating and implementing innovative ideas (Somech, 2005). Following these statements, we propose that;

Proposition 2 (P2): Participative leadership style is positively related to innovation.

Potential Absorptive Capacity and Competitive Advantage

A well-developed potential absorptive capacity helps organizations monitor the changes and trends in their market effectively and so facilitates the dissemination of the capabilities such as production and technological competencies (Zahra and George, 2002). According to Calantone, Cavusgil and Zhao, (2002), modern organizations need a strong learning orientation to gain competitive advantage.

According to resource-based view, internal resources and capabilities which are rare, valuable, unique and inimitable by competitors underlay the basis of an organization's competitive advantage (Barney, 1991). This view leads us directly to the knowledge and knowledge-based sources because an organization's competitive advantage depends on the existence or scarcity of their own knowledge (Lane et al., 2006). Clearly approved in the literature, to gain and sustain competitive advantage depends on developing internal knowledge effectively, using external knowledge, exploiting this knowledge and creating innovation (Fabrizio, 2009). Jimenez-Jimenez and Sanz-Valle (2011) have proposed some suggestions for organizations to perform they desired: (1) Organizations should promote and improve their efforts to acquire new knowledge (2) They should develop activities enhancing sharing, distribution,

and interpretation of knowledge, (3) They should renew the knowledge base, facilitate accessing to the knowledge base and try to keep this knowledge throughout the organization for future use. These suggestions for a better performance are closely related to two sub-dimensions (acquisitions and assimilation) of potential absorptive capacity. In other words, if an organization has the stronger potential absorptive capacity, the organization will achieve the desired performance results and gain competitive advantage. Following these statements, we propose that;

Proposition 3 (P3): *Potential absorptive capacity is positively related to competitive advantage.*

Innovation and Competitive Advantage

Damanpour (1991) defines innovation as the creation of new products, services, and processes. Through innovation, organizations may gain a competitive advantage over its rivalries by producing new products, services and technologies continuously so that they meet the demands of customers quickly (Chen, Zhu and Xie, 2004). Because organizations have a high degree of innovation will receive a better response from their environment, and can easily obtain the needed capabilities for sustainable competitive advantage

Innovation capacity contributes to the organization by creating value (Leal-Rodriguez et al., 2014). Innovation, for instance, is one of the most important sources of sustainable competitive advantage because it leads to product improvements that increase the value of its product portfolio (Castro et al., 2013). These values created through innovation by providing new or unique products and services (Montes, Moreno and Morales, 2005) are significant potential for organizational performance because of the characteristic of rare, valuable and inimitability (Hulery and Hult, 1998). Literature supports the idea that innovation positively affects the performance widely (Montes et al., 2005; Jimenez-Jimenez and Sanz-Valle, 2011; Laforet, 2013).

If an organization desires to achieve a competitive advantage, one of the best ways to do this comes directly from continuous technological innovation. Moreover, as a dynamic capability, the ability of an organization to renovate their products and knowledge assets is required for future success (Castro et al., 2013). In particular, taking into consider the constantly changing environment, innovation ensures an organization change and flexibility which are essential to survive and success (Liao et al., 2008). This flexibility helps organizations to overcome environmental complexity and uncertainty and therefore is the key factor for long-term future success related to business (Balkin, Markman and Gomez-Mejia, 2000). Although innovation refers to the high degree of initial and continuous investment, risk, and uncertainty, it differentiates the organizations from others because of responding customer demands quickly, customer loyalty, price premiums for new or improved products, and creating entry barriers for potential imitators (Rosenbusch, Brinckmann and Bausch, 2011). Following these statements, we propose that;

Proposition 4 (P4): *Innovation is positively related to competitive advantage.*

Participative Leadership and Competitive Advantage

Participative leaders realize their mission through effective usage and implementation of knowledge settled throughout the organization (Politis, 2001) and carry the organization to success. Proposing a model for participative management practices, Sashkin (1984a) positioned performance and productivity as final outputs of the model and stated that participative management has an effect on these variables. Investigating the relationship between performance and different leadership styles, Imamoglu, Ince, Keskin, Karakose and Gozukara (2015) demonstrated that there is a positive relationship between participative leadership and organizational performance.

Sagie et al., (2002) stated that participation facilitates the high degree of change acceptance and effectiveness during organizational change. Partially similarly, in his study, Sashkin (1984a) emphasized four important areas relating to participation: setting goals, choosing from alternatives, involving problem-solving, and making change including organizational development. Although Sashkin (1984a) has not mentioned about the content of these areas, especially individual or team level, we think that these should be considered for organizational level outputs such as reaching goals and achieving performance. For example, decisions made in a participatory manner among a large number of alternatives including determination the direction or strategic actions of the organization may be considered as choosing from alternatives. Giving another example, collective solution efforts to a problem about extending the

organization's market network will likely result in an optimum solution. Despite these assumptions, the lack of research investigating the relationship between participative leadership and organizational outcomes such as performance or competitive advantage in the literature indicates the need to study this relationship empirically. As mentioned Ogbonna and Harris (2000), most of the studies on leadership and organizational outcomes (such as performance, competitiveness) include transformational leadership and there is a need for more empirical studies on participative leadership. Following these statements, we propose that;

Proposition 5 (P5): Participative leadership is positively related to competitive advantage.

The Mediating Role of Potential Absorptive Capacity and Innovation

In their study, synthesizing the various perspectives on learning culture from literature, Berson, Nemanich, Waldman, Galvin and Keller, (2006) have found three characteristics: participation, openness, and psychological safety. Participation refers to joint decision making, investigation, commitment to learning, and self-determination. Openness means to receive new ideas, opinions, and suggestions and tolerate them. The psychological safety implies taking risk freely, trust, and support. The leadership style supporting the organization's members and enabling participation and openness is closely related to learning (Montes et al., 2005). Similarly, the findings of the research conducted by (Liao, Fei and Chen, 2007) indicate that knowledge sharing affects absorptive capacity significantly.

The results of Jansen et al., (2005) analysis which examines the relationships between Cohen and Levinthal (1990)'s "receptor" concept, participation and acquisition and assimilation of knowledge (Potential absorptive capacity) offer important clues. The results of the analysis show that participation increases the effectiveness of the receptors. These receptors selectively act on new external knowledge and facilitate both filtration and acquisition of new external knowledge. Besides this, participation ensures interactions among various aspects and leads a wide internal knowledge base. This also supports the internalizing new external knowledge and ensures gaining stronger potential absorptive capacity. The stronger potential absorptive capacity plays an important role in the renovation of the knowledge base and abilities which are necessary in the turbulent environment and renovate their sources to take advantage of emerging strategic opportunities. Thus, potential absorptive capacity helps an organization catch strategic opportunities as the first and thus exhibit a superior performance, respond to customer demands or exploit these strategic advantages (Zahra and George, 2002). In other words, while allowing to obtain and internalize the new, necessary and relevant knowledge, participatory approach of the leaders can let organizations gain competitive advantages through the diverse usages of this knowledge. For example, a leadership style that enhances all members of the organization (especially the ones having the capacity and creativity that create ideas for greater strategic potential) can differentiate the organization from others by constituting a learning climate (Montes et al., 2005). Following these statements, we propose that;

Proposition 6 (P6): *Potential absorptive capacity mediates the relationship between participative leadership and competitive advantage.*

In order to manage innovation processes efficiently and effectively, having the appropriate leadership style is crucial (Oke et al., 2009). Because leaders directly decide to introduce new ideas to the organization, set various organizational goals and encourage innovative initiatives from employees by taking their opinions (Aragon-Correa et al., 2007). Participation that leaders ensure is critical in terms of converting the new ideas and individual knowledge into innovative products, services, processes and procedures (Somech, 2005). Participative leaders support members of the organizations to discover effective business processes (Sagie et al., 2002) and use new ideas as inputs from employees (Somech (2006). In their study, Montes et al., (2005) have found that transformational leadership including attitudes and behaviors of participative style focuses on increasing employee participation in collective decisions and actions and so encouraging innovation. This innovation, embedded in new products/services, processes, and techniques, is a strategic option to respond to new challenges from change and uncertain environment. Providing an increase in profit margins and market share in turbulent environmental conditions (Laforet, 2013), innovation offers some opportunities and advantages to the organizations for taking a position more competitive than rivalries. Following these statements, we propose that;

Proposition 7 (P7): *Innovation mediates the relationship between participative leadership and competitive advantage.*

Figure 1 shows a schematic representation of the model we propose, which includes the relationship among participative leadership, potential absorptive capacity, innovation and competitive advantage.

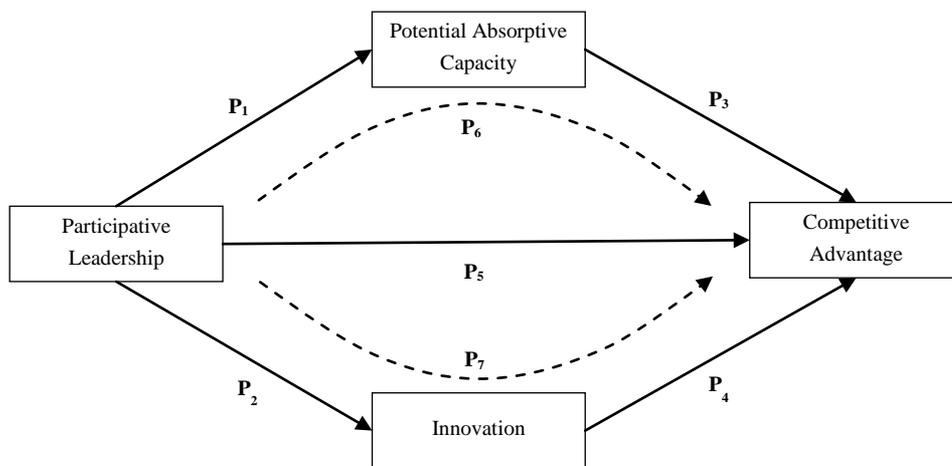


Figure 1. A framework linking participative leadership, potential absorptive capacity, innovation and competitive advantage

CONCLUSION

In this study, in a knowledge-based economy, we proposed a model clarifying the role and contribution of leadership on acquisition and assimilation of new knowledge (potential absorptive capacity), innovation and competitive advantage. We also focused on the contributions of participative leadership on organizational outcomes rather than individual and team ones. In other words, we tried to emphasize the mechanisms and structure the leader developed and utilized such as communication channels and processes, learning mechanisms, organizational climate enhancing acquisition, sharing and making sense and exploiting of knowledge. When we focus on the relationships in the model we proposed, we notice that participative leadership has an effect on potential absorptive capacity (knowledge acquisition and assimilation), innovation and competitive advantage. According to this, leaders can provide inputs for both potential absorptive capacity and innovation through making the decision jointly, openness, supporting ideas and knowledge discovery. These are consistent with Edmondson (1999) and West (2002). On the other hand, the roles of obtaining and internalizing new and relevant knowledge (potential absorptive capacity) and innovation on competitive advantage have also been the another issue of this

study. Finally, our model suggests that both potential absorptive capacity and innovation have the mediating effect between participative leadership and competitive advantage. The mediating roles of potential absorptive capacity and innovation are similar to Montes et al., (2005). The organizational environment including creation, interpretation and dissemination of new knowledge provided by a leader can lead to competitive outcomes.

Further Researches

This study has revealed an approach within the framework of the proposed model and developed arguments supporting this approach. Researchers can test the proposed model empirically. In addition to this, we again want to emphasize that further researches can focus on organizational-level outputs of participative leaders rather than individual and team level. The current literature clearly demonstrates this need. For instance, the relationship between participative leadership and other variables such as organizational performance, customer satisfaction, market share, adaptability, organizational responsiveness can be examined. Especially, the empirical studies revealing these relationships will contribute to the literature. On the other hand, researchers can add the realized absorptive capacity to the model and investigate the relations between absorptive capacity and different leadership styles such as adaptive, supportive, transformational so on. Finally, in this model, potential absorptive capacity and innovation relation can be examined.

Limitations

The model proposed in this study has just focused on the potential side of absorptive capacity but not the realized side. Similarly, innovation is discussed as a general concept. This model may be customized for different types of innovation such as open innovation, technological, and managerial. All propositions in this study offer a general framework. This model also may be tested for various industries, especially knowledge-intensive industries.

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