

## **THE LEADERSHIP-INNOVATION NEXUS: A SYSTEMATIC REVIEW OF THE PATHWAYS TO SUSTAINABLE MARKET COMPETITIVENESS**

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### **ABSTRACT**

This systematic review critically examines the intricate association between leadership, organizational innovation, and market competitiveness. In an era where dynamic markets and technological disruption have rendered traditional competitive advantages increasingly obsolete, the capacity to innovate has become a primary determinant of organizational survival and success. This review aims to synthesize the existing body of academic and professional literature to construct a comprehensive framework that elucidates the causal pathways from leadership styles to innovation activities and, ultimately, to measurable market outcomes. The methodology employed is a systematic literature review, analyzing a diverse range of scholarly articles, industry reports, and empirical studies. Key findings reveal that the influence of leadership on performance is rarely direct; instead, it is profoundly mediated by the cultivation of an organizational innovation culture, characterized by psychological safety, knowledge sharing, and a tolerance for risk. The review demonstrates the contingent effectiveness of various leadership paradigms, highlighting that while transformational and servant leadership excel at fostering the exploratory innovation necessary for radical change, transactional leadership can be instrumental in driving the exploitative innovation required for operational efficiency. A central conclusion is the emergence of ambidextrous leadership—the capacity to dynamically balance both exploration and exploitation—as a critical meta-capability for sustained performance. Ultimately, this review posits that a synergistic and strategic alignment of leadership style, innovation strategy, and organizational culture is not merely beneficial but a fundamental prerequisite for achieving a sustainable competitive advantage in the contemporary business landscape.

**Key words:** Leadership Styles; Organizational Innovation; Market Competitiveness; Innovation Culture; Ambidextrous Leadership

### **INTRODUCTION**

The contemporary business environment is characterized by unprecedented levels of volatility, uncertainty, complexity, and ambiguity (VUCA), a condition that has fundamentally altered the calculus of corporate strategy and survival (Davis, 2024). In this landscape, the traditional pillars of competitive advantage, such as economies of scale and market share dominance, are increasingly vulnerable to disruption (Markides, 2021). Consequently, innovation has transitioned from a peripheral corporate function to a central strategic imperative, becoming the core engine of organizational growth, resilience, and long-term viability (Tushman & O'Reilly, 2022; Cui et al., 2024; Tidd & Bessant, 2018). There is a broad consensus that innovation is a crucial factor enabling companies to remain competitive and achieve sustainable competitive advantages (Journal of Innovation & Knowledge, 2024). It is the primary mechanism through which firms can differentiate their offerings, create new value propositions, and adapt to the relentless pace of technological change and shifting consumer preferences (Porter, 1985).

This systematic review aims to fill that gap by constructing a conceptual bridge between these three crucial variables. It seeks to move beyond simplistic declarations that "leadership matters for innovation" by examining the nuanced and context-dependent nature of this relationship. The central inquiry of this review is to understand *when* and *how* leadership relates to innovation (Andersen & Potočník, 2015).

### **METHOD**

The methodology for this systematic review was guided by the PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) framework to ensure a rigorous and transparent process. The research question was structured using the PICO framework (Population, Intervention, Comparison, Outcome) to define the scope, focusing on organizations (Population) employing various leadership styles (Intervention/Comparison) to achieve innovation and market competitiveness (Outcomes). A systematic search strategy was executed across multiple academic databases (Pubmed, Scopus, Semantic Scholar, Google Scholar, Oxford Academic) and sources for grey literature, utilizing a comprehensive set of keywords and Boolean operators related to "leadership," "innovation," and "competitiveness." The identified records were screened against predefined inclusion and exclusion criteria, leading to the final selection of scholarly articles, industry reports, and empirical

studies for a qualitative synthesis. This process aimed to construct an evidence-based conceptual model elucidating the pathways from leadership to sustainable market competitiveness.

**RESULTS AND DISCUSSION**

Leadership Style	Core Principles/Definition	Key Psychological/Organizational Mechanisms	Primary Innovation Outcome	Strengths	Weaknesses/Contingencies	Supporting Evidence
<b>Transformational</b>	Inspiring and motivating followers to exceed expectations through vision, charisma, and intellectual stimulation.	Idealized Influence (Trust, Psychological Safety), Inspirational Motivation (Vision, Purpose), Intellectual Stimulation (Creativity), Individualized Consideration (Empowerment).	Radical & Disruptive Innovation, Favourable Innovation Climate.	Creates profound change, high employee engagement, and adaptability.	Can be less effective for detailed execution; depends on leader's vision.	(Harahap, 2024; Bass, 1997; Al-Husseini et al., 2021; Modus Create, 2024)
<b>Transactional</b>	Based on a system of exchanges, where followers are rewarded for meeting specific, predetermined goals.	Contingent Reward (Extrinsic Motivation), Management-by-Exception (Focus on Standards).	Incremental Innovation, Process Improvement, Exploitation.	High clarity, efficiency, and predictability in stable environments.	Can stifle creativity, risk-aversion, and does not foster intrinsic motivation.	(Aarons, Ehrhart, & Farahnak, 2014; Ali et al., 2017; Alblooshi, 2020)
<b>Servant/Agile</b>	Prioritizing the needs, growth, and empowerment of the team; removing obstacles to their success.	Empowerment, Trust, Psychological Safety, Adaptability, Rapid Feedback.	Team-driven Innovation, Continuous Improvement, High Engagement.	Fosters a highly collaborative and supportive culture; effective in dynamic and remote settings.	Can be slow in hierarchical decision-making; requires mature teams.	(Srimulyani, Ellitan, & Hermanto, 2025; Yang et al., 2018; Greenleaf, 1979)
<b>Ambidextrous</b>	A meta-capability to dynamically balance "opening" (exploration) and "closing" (exploitation) behaviours.	Behavioural Flexibility, Situational Awareness, Paradoxical Mindset.	Sustainable Innovation Portfolio (Balancing Radical & Incremental).	Achieves both long-term adaptability and short-term efficiency; key to sustained competitive advantage.	Extremely difficult to master; requires high cognitive complexity from leaders.	(Zacher, Rosing, & Bilalić, 2024; Haider et al., 2023; Deloitte, 2023)

<b>Laissez-Faire</b>	A hands-off approach providing high levels of autonomy and decision-making freedom to followers.	High Autonomy, Self-Direction, Decentralized Decision-Making.	Niche/Expert-driven Innovation.	Empowers highly skilled, self-motivated experts; allows for rapid decisions.	Often leads to lack of direction, role ambiguity, and chaos; highly contingent on follower maturity.	(Cherry, 2023; Al-Shawabkeh, 2019)
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The strategic pursuit of innovation is not an end in itself but a means to achieve a tangible and sustainable competitive advantage in the marketplace. Different types of innovation create value through distinct mechanisms, impacting a firm's market share, profitability, and overall market position in different ways. This section explores the causal pathways that connect specific innovation activities to measurable competitiveness outcomes.

The relationship between leadership and innovative performance is almost entirely mediated by the organization's innovation culture (Srimulyani, Ellitan, & Hermanto, 2025; Al-Jaradat, 2019). An innovation culture is a specific subset of the broader organizational culture, defined by a shared set of values, beliefs, norms, and behaviours that collectively encourage and support innovation. Key components of such a culture include a high degree of creativity and openness to new ideas, a willingness to take calculated risks, and a pervasive entrepreneurial mindset among employees (Capon et al., 1992; Al-Jaradat, 2019).

The ultimate strategic challenge, as highlighted by the ambidexterity literature, is for an organization to develop the capacity to do both simultaneously. This requires leaders with exceptional behavioural flexibility who can fluidly switch between opening behaviours (to nurture the next generation of products) and closing behaviours (to efficiently manage the current ones) (Zacher, Rosing, & Bilalić, 2024; IdeaScale, 2024). This ability to manage the inherent tension between exploration and exploitation is what separates market leaders who enjoy sustained success from those who experience fleeting victories followed by stagnation. The framework makes it clear that sustainable competitiveness is not about choosing one path, but about building the organizational and leadership capacity to travel both

## CONCLUSION

This systematic review concludes that leadership's impact on innovation is primarily indirect, mediated by the cultivation of a robust organizational innovation culture characterized by psychological safety, knowledge sharing, and risk tolerance. There is no universally superior leadership style; instead, effectiveness is contingent on strategic goals, with transformational and servant leadership excelling at fostering radical innovation, while transactional leadership drives incremental improvements. Consequently, the critical meta-capability for sustainable competitiveness is ambidextrous leadership—the behavioral flexibility to balance exploration and exploitation. The key strategic implications for practitioners are threefold: prioritize building an innovation culture as a foundational element, align leadership development with specific innovation objectives, and invest in cultivating ambidextrous leaders who can dynamically navigate the paradox between future growth and present efficiency.

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