



MEDIATING ROLE OF HUMAN RESOURCE MANAGEMENT SYSTEM ON THE RELATIONSHIP BETWEEN TRANSFORMATIONAL LEADERSHIP AND COMPETITIVE ADVANTAGE OF MANUFACTURING FIRMS IN KENYA

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ABSTRACT: *Competitive advantage plays a significant role in developing and accomplishing organizational goals. However, some of the organizations are struggling to attain a competitive cutting edge against competitors. Previous studies have been done on the effect of transformational leadership on competitive advantage with mixed findings, therefore, requiring the inclusion of moderating or mediating variables. The purpose of this study is to establish the mediating role of Human Resource Management System (HRMS) on the relationship between Transformational leadership (TL) and Competitive Advantage (CA). The specific objectives were to assess the effect of Transformational Leadership and Human Resource Management System on Competitive Advantage, to establish the effect of Transformational Leadership on Human Resource Management System, to establish the mediating effect of Human Resource Management System on the relationship between Transformational Leadership and Competitive Advantage. The study was guided by the Resource Based View, Porter's Generic Strategy of Competitive Advantage, Five Forces of Competitive Position and Capability Based View Theories. A positivism paradigm and explanatory research design were used. A sample size of 400 out of 795 manufacturing firms registered by Kenya Association of Manufacturers (KAM) and operating in Nairobi County, Kenya was obtained using Yamane's formula. Data was collected using a close-ended questionnaire and analyzed using descriptive statistics including mean, standard deviations and inferential that is correlation and Hierarchical Regression analysis. Further, Hayes Model 6 was used to test the mediations and mediation hypotheses: The results showed that TL ($\beta=.419$ and $LLCI = .323$, $ULCI = .516$), HRMs ($\beta=.23$ and $LLCI = .138$, $ULCI = .330$) significantly influenced CA. Additionally, TL ($\beta=.635$ and $LLCI = .554$, $ULCI = .716$) has a significant effect on HRMs. The results further showed that HRMs mediated the relationship between TL and CA ($\beta=.148$, $Boot LLCL = .073$ and $Boot ULCI = .218$). In conclusion, the study established that Human Resource Management mediated the relationship between Transformational Leadership and Competitive Advantage. The findings clarify the alignment of HRMS with CA for manufacturing firms in Kenya. Therefore, managers should develop a strong HRMS, which can affect the abilities of the firms to attain Competitive Advantage. The study recommends that; CEOs need to develop desirable implement policies that enhance a Job-based HRMs, a culture of continuous training of employees', professionalism practices and produce distinct and high quality products and services to meet customer needs and preferences. Further, that firm's leadership should enhance critical thinking to adapt to technological changes in the unstable environment.*

KEYWORDS: Human resource management system, Transformational leadership, Competitive advantage.



BACKGROUND INTRODUCTION

Although competitive advantage is an important concept in strategic management, its interpretation still matters, and finally, a stronger meaning must be found to support its understanding by stakeholders. Since ancient times, competitive advantage has been viewed as the result of a company's strategic use of business advantages in products, processes, ideas, and/or technology to innovate to maintain market excellence and uniqueness (Campbell-Hunt, 2000; Covin & Miles, 1999). Therefore, competitive advantage is the company's ability to outperform its competitors (Russell & Millar, 2014).

Additionally, the ability to act effectively helps companies remain competitive by developing products and using new business methods, while other companies must adapt themselves to gain a competitive advantage (Ervin & Smith, 2008; Ray, 2019). There is plenty of evidence from empirical studies around the world to name a few. Naatu (2016) shows that Commercial Precious Minerals (PMMCs) companies are more competitive. In a similar study on Portuguese shoe export companies, the results showed that the product (domain of competitive advantage) has a direct impact on market orientation and competitive advantage through differentiation (Rua & Santos, 2022). These examples are concentrated in the north of Portugal and therefore the results obtained are not suitable for generalization and may vary in developing countries such as Kenya due to environmental differences.

On the other hand, companies need to develop changing policies and business models to suit important advances in order to better compete themselves and their employees in a competitive market; (Eneizan, Abd-Wahab & Obaid, 2016). Additionally, companies that focus on quality and innovation as a process of developing competitive advantage can achieve their goals through leaders who can influence others through cultural change in terms of cognitive support, effective work, emotional support, and self-concept in creating positive outcomes (Semuel & Siagian, 2015).

People are among the most important resources available to firms in an inquest into the firm's leadership, and competitive advantage. One could argue that firms achieve competitiveness through product branding and adoption of new ways of approaching markets and also through re-organizing themselves strategically (Parker & Van Alstyne, 2005; Raymond & Uwizeye Mungu, 2007; Ismail, Rose, Uli & Abdullah, 2012; Kinyanjui, Oloko, Gachunga & Gathondu, 2014), forgetting that people (human) are the most important firm's asset and managing people(human) can be linked to attaining competitive advantage. Previous scholars have indicated that the human element is becoming increasingly important in generating economic value (Conner & Prahalad, 1996; Snell, Shadur & Wright, 2005). The firm's top management may require implementing HR Systems that guide the process, and develop and deploy human, social, and organizational capital to enhance the firm's competitiveness.

STATEMENT OF THE PROBLEM

Manufacturing firms in Kenya have been the main channel for the country's integration into regional and world markets (Achieng, Awino & Kitiabi, 2020; Nzisa, 2019; Rioba, 2015). They have been identified for economic growth and development because of the immense potential for wealth, employment creation, and poverty alleviation (Kagechu, 2013). Previous studies'



findings indicate that some of these firms are struggling to attain a competitive cutting edge against competitors in the market (Bell Jr, 2015; Kiprotich, Gachunga & Bonuke, 2018; Nuthu, 2015).

Nonetheless, with availability of raw materials, firms like Nzoia and Mumias Sugar Companies and Kitinda Dairy Firm Ltd in the western region of Kenya have had a fair share of challenges becoming a dancing arena for political catapults. Whilst others like the famous giant, Webuye Pan Paper Mills and Malakisi Ginnary have since shut down. This prompted this study into an inquest on manufacturing firms in Kenya, a sector most hit in gaining competitive advantage in the competitive market.

Probably, a rapidly changing market environment and unsupportive legal and regulatory frameworks may be among the factors that firms should address (Teece, Peteraf & Leih, 2016); Abor & Quartey, 2010; Bouazza, Ardjouman & Abada, 2015; Omar, Arokiasamy & Ismail, 2009). However, firms' leadership (CEOs/top level managers) may not be an exception since leadership is a key primary agent that formulates and implements organizations' policies and business frameworks.

As such, manufacturing firms require top leadership to influence, stimulate, and inspire or transform employees to go beyond achieving ordinary strategic capabilities as is empirically evident (Ervin & Smith, 2008). This may be through the integration of new and existing strategic assets within the firm, then transforming and reconfiguring them to address the rapidly changing environment. More so, firms' top leadership being fundamentals and action focal points, however, communicate a strong vision for firms (Rono, Korir & Komen, 2020), by enhancing a strong Human Resource Management System (HRMS), which is key in building firms' vibrant abilities to achieve competitive advantage.

In the Kenyan context, the few studies that have been done seem to have bypassed linking HRMS as a mediator variable between Transformational Leadership and Competitive Advantage. However, their findings dwell on how to maximize dynamic capabilities to help firms to be competitive (Leah, Michael & Joyce, 2021). However, firms cannot gain a competitive advantage in a dynamic environment based on dynamic capabilities alone but are dependent on other environmental factors (Fainshmidt, Wenger, Pezeshkan & Mallon, 2019). This study was founded on the aforementioned previous research gaps. Hence, it sought to establish the link between transformational leadership, Human Resources Management System and Competitive Advantage of manufacturing firms in Kenya.

LITERATURE REVIEW

Concept of Human Resource Management System (HRM System)

An HR system is an internally aligned set of HRM practices with a specific purpose as stated by Kang and Snell (2009). Boxall, Ang and Bartram (2011) defined HRM as a process of managing work and people in organizations. This definition is used in this study in that it articulates the management of not only human resources within a firm but also includes the management of work that human resources perform to achieve organizational objectives. Several studies measure HRM in terms of individual HR practices (Batt, 2002) or systems/bundles of HR practices (Cappelli & Neumark, 2001; MacDuffie, 1995; Subramony,



2009). Similarly, top leadership of an organization can internally align the HR system to fit its main objective of attaining its goals and in this regard, competitively gaining an advantage in its market segment, by either focusing on developing employee skills for the organization or developing employee skills for the job.

Skill-Based Human Resource Management System (HR System)

The system mainly focuses on developing valuable employees for the variety and versatility of their skills and knowledge (Kang & Snell, 2009). Additionally, a skill-based development system allows behavioral traits integrated into HRM models other than those currently held. It is characterized by training and development of future skills, behavioral performance appraisal, and skill-based pay that increases the opportunities and motivation for individuals to experience a wider variety of tasks (Lepak & Snell, 2002). This system tends to use extensive training to focus on future skills beyond current job requirements and improve employee potential and openness to learn new skills. The organizational top management plays a key role in encouraging employees to gain new knowledge and ideas, and to go beyond their current jobs hence, the leadership of the organization is pertinent as drawn by this study.

Functional-Based Human Resource Management System (HR System)

Referred to as a job or function-based development system, it focuses on the results: what is accomplished (Schippmann et al., 2000). Firms focus on those competencies that will enable long-term organizational adjustment to evolving conditions. Top-level management, under a function-based development system, is concerned with the achievement of a short-term task match (Clardy, 2007). Additionally, top-level leaders in organizations focus on the development of multi-skilled people with a more versatile repertoire of capabilities that can be used across alternative situations. Their priority is employee potential and openness to learning new skills. Conclusively, top management in an organization's HR system organizes their efforts around job-related tasks and inferences about the knowledge and skills required to perform the job-related tasks (Lopez-Cabrales, Bornay-Barrachina & Diaz-Fernandez, 2017). This system uses intensive training to improve current job-related skills (Lepak & Snell, 2002). The system with enhanced recruitment, increased employee commitment that offers equitable fair pay and retention of highly talented top employees to improve the organization's reputation and increase firms competitive advantage drawing

High-Performance Work HRMS

A high-performance work system (HPWS) is an HRM System approach, that comprises a set of related HR practices that can facilitate employees' ability and skill (staffing and training and development), motivation and incentive (compensation and performance appraisal), and opportunity to perform (participation and communication) (Appelbaum, Bailey & Berg). The organization's top-level management is crucial in cascading the HPWS in the organization to achieve any set objective of the organization (Wright & Nishii, 2006). Since line managers are key implementers of the HRMS, this calls for an inquest into the top leadership of organizations vis a vis the trait that affects the organization's objectives. For instance, the necessary support to line managers to effectively implement the HRMS and formulate policies and procedures that can also help an organization reach its goals.



The Concept of Transformational Leadership

Transformational leaders are leaders who work and motivate their subordinates to identify the business vision. They create an atmosphere of trust and motivate employees to work for the organization beyond their self-interests (Khorshid & Pashazadeh, 2014; Korejan & Shahbazi, 2016). According to Bass, Avolio, Jung and Berson (2003), transformational leadership is a conscious, moral, and spiritual process that provides development patterns for the organization through reliable equal-power leadership. It is agreeable that when transformational leadership components complement other leadership actions, it can become a source of competitive advantage for organizations (Rahmati, Eskandari, Sadr & Nouri, 2014).

Transformational leadership entails leaders who seek to create ideas and new perspectives, create a new path of growth and prosperity in front of the organization. This is by developing commitment, passion, and loyalty among managers and staff, mobilizing the organization's members to make fundamental changes in fundamentals and basis of the organization to be prepared and to gain necessary capabilities for moving in new directions in a competitive environment (Korejan & Shahbazi, 2016).

Transformational leadership is described as leadership that effectively transforms or changes followers to escalate beyond their self-interest by changing their ethics, interests, and scruples. They are, therefore, leaders who can motivate others to do more than they originally intended to do and do it quite often even more than they thought possible. A factor analytic study by Avolio and Bass (1995) suggested that transformational leadership can be conceptually organized along four correlated dimensions: charisma- idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration. Through inspirational motivation, the leader creates a clear picture of the future state that is both optimistic and attainable, encourages others to raise their expectations, reduces the complexity of key issues, and uses simple language to convey the mission. Through intellectual stimulation, leaders stimulate their followers' efforts to be innovative and creative by questioning assumptions, reframing problems, and approaching old situations in new ways. Through individualized consideration, leaders pay special attention to each individual's needs for achievement and growth by acting as a coach or mentor (Avolio & Bass, 1995).

Similarly, recent studies have elucidated the four main dimensions of transformational leadership from the perspective of Bass et al. (2003) which include idealized influence, inspirational motivation, intellectual stimulation, and personal considerations. This study expansively extends the existing literature with an in-depth insight into the four dimensions.

The Concept of Competitive Advantage

Competitive advantage has been defined by other previous scholars as a cornerstone concept in the field of strategic management (Baaij, Greeven & Van Dalen, 2004; Rumelt, 2003) and which also enunciated this study because it is a concept that is widely accepted in strategic management courses and textbooks as an essential (Barney & Clark, 2007).

The concept of competitive advantage is said to be occupying a central position in strategic management studies (Barney, 1991; Barney & Clark, 2007; Barney & Hesterly, 2010; Burden & Proctor, 2000; Liao & Hu, 2007) and this has led to increasing interest in the concept among scholars and practitioners (King, 2007; Porter & Kramer, 2006). Competitive advantage is



regarded as what leads a firm to position itself in a market segment and withstand rivalry forces, new market entrants, and outperform competitors (Saha, Jirčíková & Bialic-Davendra, 2011; Akhtar, Khan & Mujtaba, 2013; Berber, 2011; Barney & Clark, 2007; Agustiana & Budiastuti, 2020). From this wide range of literature, it is noticeable that achieving competitive advantage helps the firm to dictate the price in its operating sector while maintaining a leadership position within the industry and this is a very important aspect of strategic management that has prompted this research too (Obeidat, 2021; Pinto, 2013).

The introduction of the concept of competitive advantage was in Porter's book on competitive advantage. Even though Porter and Kramer (2006) provide no explicit definition of competitive advantage. He states that competitive advantage stems from the firm's ability to create superior value for its buyers. Porter adds that superior value stems from offering lower prices than competitors for equivalent unique benefit.

EMPIRICAL LITERATURE REVIEW

Manufacturing Firms

Manufacturing companies face indefinite changes in consumer demands, technology, competition and globalization and many other aspects. The competitive environment changes daily, resulting in high levels of uncertainty that affect how firms compete (Wilden, Gudergan, Nielsen & Lings, 2013). According to the RBV (resource-based view) theory, firms in the same industry perform differently due to their different resources, their level of knowledge (Barney & Clark, 2007). However, this is by the control and use of skills and exploiting the same to improve the competitive advantage of the firm.

Firms are expected to constantly search creatively in the form of dynamic functions or routines they use to achieve an improved configuration of resources to remain relevant even when markets emerge, crash, split, evolve or die (Winter, 2003). In more advanced economies, manufacturing companies realize that to survive they must focus on the downstream end of the value chain. This aims to enable them to compete not on cost but on value innovation, process excellence and competitiveness (Inan & Bititci, 2015).

In Africa, even long after independence, political changes in many countries continued to affect the speed and level of growth in their manufacturing sectors. This growth of politically driven sectors was not sustainable, further, the sectors remained small, with high exit rates and lacking effective policy frameworks to support firms operating in these volatile environments (Adenikinju, Söderling, Soludo & Varoudakis, 2002).

Transformational Leadership and Competitive Advantage

Transformational leadership and competitive advantage are keywords that have become popular in manufacturing, particularly about private sector organizations. These two concepts are less well documented. This is specifically in the perspective of the direct effect on competitive advantage in literature.

Transformational leadership acknowledges the importance of organizations and individuals to evolve and constantly improve. As such, transformational leaders combine synergistic duties owed to individuals and their organizations and motivate followers to pursue their development while working for the goals of their organization (Reza, 2019; White, Pearson, Bledsoe &



Hendricks, 2017). Therefore, transformational leadership incorporates commitments to the organization, the community, and individuals and its leaders pursue organizational excellence while honoring duties to employees to keep them informed, provide them with the resources to achieve individual goals, and seek their highest potential.

Bass et al. (2003) argue that transformational leaders are pertinent, especially during turbulent times. He further argues that the goal of transformational leadership is to 'transform' people and organizations in a literal sense. Meaning, to change them in mind and heart; enlarge vision, insight, and understanding; clarify purposes; make behavior congruent with beliefs, and principles, or values; and bring about changes that are permanent, self-perpetuating, and momentum building hence leaders in this category display concern for their workers' needs, and are equipped to boost and coach the development of desired workplace behavior.

The current study has analyzed the mediation effect of the HRM System on the relationship between Transformational Leadership (independent variable) and Competitive Advantage (dependent variable) and the relationship was significantly positive.

Transformational Leadership, HRM System, and Competitive Advantage

Empirical studies and meta-analyses have found positive relationships between transformational leadership and a range of outcome measures. Vasilaki (2011) confirms a positive significant effect of transformational leadership on organizational performance in cross-border acquisitions consistent with DeGroot, Kiker and Cross (2000), Jacobsen and House (2001), and Lowe, Kroeck and Sivasubramaniam (1996). Good leadership reduces causal ambiguity, influences followers to achieve goals and exhibits behaviors such as inspirational motivation and intellectual stimulation.

Since the average period in which firms can achieve a competitive advantage has been decreasing over time (Wiggins & Ruefli, 2005), the issue has become a critical concern for both academics and practitioners (Li & Liu, 2014). Leaders can immediately adjust subordinates' specific goals and initiatives, and are, therefore, considered to be the most important factors influencing employee innovation (Harborne & John, 2003). Transformational leaders can support, build, and stimulate employees involved in creative processes.

The study proposes that HR systems are an effective vehicle that may be influenced by a CEO to lead firms into achieving competitive advantage. The choice of the system of HRM practices to be applied in a firm can be considered a consequence of strategic leadership since a well-established line of research suggests that HRM practices ensure employee behaviors that firms may achieve competitive advantage (Lengnick-Hall et al., 2009; Wright et al., 1994). The relationship between leadership and dynamic capabilities is expected, supposing that different systems of HRM practices reinforce organizational dynamic capabilities.

HRM System and Competitive Advantage

The concept of HRM systems can be approached from the resource-based view (RBV) of the organization, which means that a resource can be classified as a source of competitive advantage as long as the resource is rare and difficult to imitate, and adds value to the organization (Boxall, 1996). According to Miller and Shamsie (1996), competitive advantage can be achieved as long as HR systems can develop the specific competencies and capabilities



of organizations. Thus, the link between different HR systems, intellectual capital and learning competency/work-based HR practices that strengthen human, social capital and learning type.

Several researchers argue that HRM systems are considered both key control mechanisms and important determinants of trust levels (Faulkner, Pitkethly & Child, 2002; Lakshman, Dupouët & Bouzdine-Chameeva, 2017; Wong, Solberg, Junni & Giessner, 2016). They further note that these systems are important for managing a sense of procedural justice, which in turn increases employee identification with the organization. However, Edwards and Wright (2001), Ismail, Baki, Omar and Bebenroth (2016), Guest (2017, 2021), and Kooij et al. (2013) found that HRM practices that emphasize communication, employee involvement, teamwork and training and development are significantly correlated with positive employee behavior and employee well-being (Delery, 1998; Wright & Nishii, 2007).

HR practices facilitate the development of a company's knowledge base like recruitment, training, socialization and management system. This is through employee behavior, which is influenced by task-related behaviors and discretionary behaviors. Such include organizational structure and culture according to Delery (1998) and Wright and Nishii (2007).

In recent years, managers and strategists have increasingly sought to understand how one of the last truly competitive resources - human resources - can be managed to achieve competitive advantage (Morris et al., 2009; Snell et al., 2005). This study found an existence of a gap which deemed it fit to address; this was by mediating the variable (HR System) on the relationship between Transformational Leadership and Competitive Advantage.

HRM System and Competitive Advantage

A Human Resource Management System is a set of internally coordinated practices with a definite purpose. Kang and Snell (2009) distinguished a "skills-based development system", which focuses on developing valuable employees for the variety and versatility of their skills and knowledge, and a "job and function-based development system," whose main concern is to develop employees with skills and knowledge linked to their particular current jobs. The two sub-HR systems are internally aligned but the difference is in terms of purpose. Those that focus on developing employee skills for the organization vs developing employee skills for the job. There are several key differences between these systems. Skill-based development systems are person-based and concentrate on how objectives are met or how work is accomplished whereas job or function-based development systems focus on the results, that is, on what is accomplished (Schippmann et al., 2000). Firms focus on those skills that will enable long-term organizational adjustment to evolving conditions. Under function-based development systems, the concern is to achieve a short-term task match (Clardy, 2007).

In addition, skill-based development systems allow behavioral traits to be integrated into HRM models and enable individual ex-ante assessment against requirements and responsibilities other than those currently held, while job or function-based systems are focused on current and technical skills and evaluate performance in the execution of specific tasks ex-post (Soderquist et al., 2010). Skill-based development systems – characterized by training and development of future skills, behavioral performance appraisal, and skill-based pay – increase the opportunities and motivation for individuals to experience a wide variety of tasks (Lepak & Snell, 2002).



Talking about employees, leaders seek to balance similarities and differences to retain talent and prevent the withdrawal of employees (Vasilaki, Tarba, Ahammad & Glaister, 2016) in organizations. Prior research indicated that leadership has a significant effect on talent retention (Zhang et al., 2015).

RESEARCH METHODOLOGY

Research Design: Based on the hypothetical nature and direction of the relationship among variables that this study sought to establish, the variable relationship was determined using regression analysis to obtain inferential statistics and used the results to test the research. Hypotheses to connect to the objectives of the study as explained by previous scholars (Saunders et al., 2007). This study embarked on an explanatory method, as this method was best suited because the researcher was able to collect data once at one point in time and it was consistent with the positivist research. The philosophy that allowed the researcher and her team to make inferences about the population of interest. The study mainly proposed to understand why things happened the way they did to build, extend, elaborate, and test the study theories (Neuman, 2014; Neuman & Robson, 2014). However, it adopted a quantitative approach through explanatory research design to establish a causal relationship between variables (Saunders et al., 2007).

This was done specifically to enable the researcher to combine relevance to the research purpose with the procedure as stated by Zikmund et al. (2013). Majorly, the design was used to answer questions about the causal relationship between variables, whereby the researcher sought reasons and causes and provided evidence to support or refute explanations or predictions as explained by (Simiyu, Bonuke & Komen, 2020; Simiyu, Komen & Bonuke, 2019). The researcher equated the firms' competitive advantage as a reality phenomenon, which prevails in Kenya, particularly in the manufacturing sector. Hence, in the spirit of accuracy, the researcher examined its prevalence and predictors by reviewing relevant empirical literature that concerned theories. It is from this that a conceptual framework was constructed with a set of variables; Transformational Leadership (TL) as an independent Variable (IV), Human Resource Management System (HRMS) as the mediator (M), and Competitive Advantage (CA) as the Dependent Variable (DV).

Data Type and Source: The main data of this study was the primary data collected directly from the respondents. Primary data is information collected by the researcher specifically for the research work following previous studies by Rabianski (2003). The primary method of this research aimed at quantitative data collection. The researcher and through the aid of the research assistants paid direct visitation to the targeted respondents as a source of the study's primary data.

Methods and Tools for Data Collection: The data collection was aided by the research questionnaires as the study's research data collection instrument. The researcher structured the questionnaire items as guided by Babbie and Benaquisto (2009), Coltman (2007), Nyachanchu et al. (2017) and Saunders et al. (2007). Based on the literature reviewed, the structured questionnaire is a reliable tool capable of collecting huge data from respondents in a timely manner.



The researcher divided the questionnaire into four sections, namely: section A, B, C, and D. The sections were then categorized as follows. In Section A, the researcher examined the demographic profile of the companies which were the manufacturing firms in Nairobi County – this was in Nairobi's Industrial area. The demographics were characterized by the size of the firm and the age of the firm. In this very section, the size of the firm entailed items, which the researcher investigated the number of employees to guide how, large or small the company was, whereas, the number of years the firm had been in operation was also included in this section which guided the researcher in examining the studies dependent variable, competitive advantage. Section B examined the construct of Transformational leadership (TL) of the manufacturing firms which was the independent variable. In section C, the researcher examined the mediator of Human Resource Management System (HRMS) of manufacturing firms and the last, section D, examined the construct of the competitive advantage of the manufacturing firms. The scale was rated on a five(5)-point Likert scale numbered in the following manner: 1 - Strongly Disagree (SD), 2- Disagree (D), 3- Neither Agree nor Disagree (N), 4- Agree (A), and lastly 5- Strongly Agree (SA) adopted from Leah et al. (2021) .

Model and Conceptual Framework

The study examined the mediation effect of the HR System on the relationship between Transformational Leadership and Competitive Advantage. Before testing a mediation model, Hierarchical regression model was used to determine how much any additional variable in the model contributes to the variance in the dependent variable, competitive advantage

The model linked the dependent variable (Y); (Competitive Advantage), to the independent variable (Xi.); the Transformational Leadership and the mediator HRM Systems (Xii). The outcome revealed a linear relationship between the dependent and independent variable. This proved that regression assumption was met as explained in.(M. Kisubi, Korir, & Bonuke, 2021; M. K. Kisubi, Bonuke, & Korir, 2021; Leah et al., 2021).

TL (X) must significantly affect the mediator, HRM Systems (M). HRM System (M) significantly affects Competitive Advantage (Y). The equation for testing this condition was $Y = b_0 + C + b_1M + \epsilon$. This involved determining the influence TL (X) on the outcome variable Competitive Advantage (Y) in the presence of HRM systems (M). To determine if mediation has taken place, both confidence intervals (Upper limit and Lower limit) had none zeros. Finally, to test for the mediation hypothesis, all paths a_1 , b_1 and c_1 must be significant. If the three paths are significant, then the mediation is achieved by multiplying the coefficients of $a_1 \times b_1 \times c_1$. The significance level is also confirmed by both confidence intervals having none zeros.

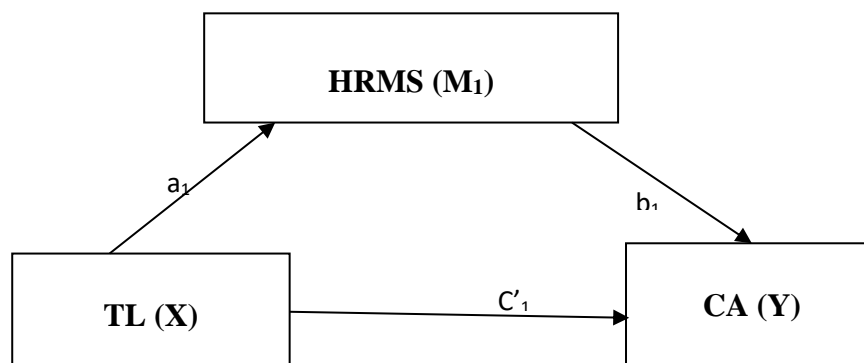


Figure 3.1: Statistical diagram model

Source: Hayes (2018) Model 6

**Where;**

TL= Transformational Leadership

CA= Competitive Advantage

HRMS= Human Resource Management Systems

Direct effect of X on Y = C'

Indirect effect of X on Y through M₁ = a₁b₁

a₁, a₂, β₁, β₂, C'₁ are the parameters associated with the corresponding dependent variable that were estimated

β₀ is the intercept

ε is the error term.

RESULTS AND DISCUSSION

The current study's findings further assessed the mediating effect of HRM systems on the relationship between transformational leadership and competitive advantage. The results revealed that the Human Resource Management systems (HRMS) mediate the relationship between the predictor and the outcome variables β=.149, LLCI = .073, ULCI = .218).

Further, Hayes Model 6 was used to test the mediations and mediation hypotheses: The results showed that TL (β=.419 and LLCI = .323, ULCI = .516), HRMs (β=.23 and LLC I = .138, ULCI = .330) significantly influenced CA.

Additionally, TL (β=.635 and LLCI = .554, ULCI = .716) has a significant effect on HRMs. The results further showed that HRMs mediated the relationship between TL and CA (β=.148, Boot LLCL = .073 and Boot ULCI= .218).

In conclusion, the study established that Human Resource Management mediated the relationship between Transformational Leadership and Competitive Advantage.

Table 1. Mediation analysis of HRMS

Variables	Model 1 (HRMSystems)		Model 2 (CAvantage)	
	β	p-v	B	p-v
Constant	-.126	.647	.090	.709
Firm Age	-.003	.953	-.051	.191
Firm size	.061	.264	.077	.110
TransLeard	.635***	.000	.419***	.000
HRMS	-	-	.234***	.000
R ²	.404		.541	



F		81.622***	84.729***			
Mediation	Effects	EFFECT	SE	LLCI	ULCI	
Indirect 1	$H_{05} = a_1 \times b_1 = TL \rightarrow HRMS \rightarrow CA$ $.635 \times .234 = .149$.149	.037	.073	.218	
Total Indirect Effect =		.149	.149	.037	.073	.218
Total Effects = Direct Effect + Indirect Effect =		.419 + .149 = .568				

Note: ***p < .001, TL= Transformational Leadership, HRMS = Human Resource Management Systems. CA = Competitive Advantage

Source: Research data 2024

This study's results conform to the researcher's argument and that transformational leadership is anchored on the four dimensions; individual consideration, idealized influence, inspiration motivation, and intellectual stimulation and in agreement with Obiwuru, Okwu Akpa and Nwankwere (2011), Ojokuku, Odetayo and Sajuyigbe (2012), and Waldman, Ramirez, House and Puranam (2001). Responses from Kenya's selected manufacturing firms (Industrial Area) agreed to the attributes of top-level transformational leaders who are motivated to transcend their own immediate self-interest for the sake of their firm's mission and vision, through emotional, intellectual and moral engagement which stimulated employees to perform beyond expectations.

It was evident that the rightfully recruited professionals in their relevant fields with aligned continuous training programs will enhance high quality service delivery to the firm's customers, which in turn enhances customer retention, and attract new customers to the firm, boosting the firm's reputation that culminates into competitive advantage.

RECOMMENDATIONS

Manufacturing firms in Kenya must align the firms' HR System that better matches the market segment to achieve a competitive advantage.

The firm's top-level transformational leadership must align the firm's recruitment and selection system to be attractive by offering high-quality jobs and recruiting highly qualified professionals and paying them higher than what competitors offer to boost the firm's brand name. Support of firms' enhancement of the HR systems with emphasis on job-related tasks as outlined in this study will increase the firms' competitive advantage.

They must emphasize the firm's compliance with relevant laws and regulatory systems and provide employees with job-related training to equip them with unique skills that are superior and distinct.

Firms' leaders need to be critical thinkers, embrace creativity, innovation and current technological trends and consider the high involvement of human resource systems based on industrial democracy, self-management work teams, greater task variety, and effective use of knowledge and skills to enhance the competitive edge of companies.



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