The role of a leadership style in Innovation

Leadership styles that innovate

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Management Summary

Nowadays innovation is becoming a more and more important factor for the success of an organisation. It is important to understand which factors influence the innovation process organisation positively. Therefore, the thesis investigates the relationship between leadership styles and the innovation process of an organisation. In this thesis, the factors of different leadership styles that have a positive effect on the innovation process are examined. And the important factors of the innovation process are linked to the leadership styles that have a positive effect on the innovation process. Also, the relationship of organizational learning with innovation and leadership styles is described.

By doing this, an answer to the question of; What is the influence of a leadership style through organizational learning on the innovation process of an organisation? is found. Through a literature review of many articles on the academic field of leadership and leadership styles, innovation and the innovation process and organizational learning, the relationship is analysed in an extensive way, recognizing different theories.

Innovation is crucial for the effectiveness of the organisation. According to Damanpour, 1991, the adaption of innovation is intended to contribute to the performance of the organisation. Looking at the literature, innovation can be measured through different dimensions. Many researchers on innovation define different definitions. For describing the relationship of the innovation process with leadership styles, there is chosen for a broad definition of Hoffman and Hegarty (1993) with an overlapping of all dimensions of innovation. The innovation process is described as, the development of new products/markets and new and more efficient administrative mechanisms, through new systems for planning and control. Looking at the important factors that determine the success of the innovation process, it can be said that creativity is a key-factor. According to Damanpour (1987), Kim (1980) and Kimberly and Evanisko (1981), the organisation of the innovation is a primary determinant of innovation, and therefore, organizational influences are of importance for the success of the innovation process.

A leader can lead people through different ways, the style of leading is called the leadership style. Looking at the literature of leadership, there are two streams of leadership styles, who are frequently been used in the academic research field to describe a leadership style. These two streams are the transactional and transformational leadership styles, based on the theory of Burns (1978). A considerable amount of research has been done that support these two styles, like for example Avolio and Bass, (1999) House and Puranam, (2001) and Yukl, (2002). According to Aragón-Correa et al., (2007), a leadership style has traditionally emphasized as an important influence on the firm’s innovation. Looking at the effect of these two leadership styles on innovation, it can be said both styles have an effect on innovation.
Transsactional leadership is negatively related to business performance (Howell and Avolio, 1993). Assuming that this leadership style also affects the innovation process negatively, the effects of this leadership style on the innovation process are excluded from this thesis.

According to Aragón-Correa et., 2007 transformational leadership has a positive effect on innovation. This effect is a positive and direct effect and also a positive and indirect effect through organizational learning. Looking at the factors of transformational leadership that influences innovation positively, it can be said that the form of transformational leadership (Intellectual stimulation), whereby the leader creativity encourage, by soliciting ideas, taking risks and challenges assumption, is a form that has these positive factors. Like for example, Aragón-Correa et al., (2007) describes CEO’s willingness to accept risks and mistakes is the first step to the firms innovation.

Much literature like for example Alegre and Chiva (2008) describe that organizational learning influences the innovation process direct in a positive way. Knowledge and learning are very important for organisations. Learning leads to new concepts and ideas and knowledge can be seen as power and as a resource. Alegre and Chiva (2008) describe that if an organisation has the ability to learn it can compete with other organisations. The ability of an organisation to learn is called organizational learning. It can be assumed that organizational plays an important role in the success of the innovation process. Organizational learning sets the basis for new ideas and is a supporting factor for creativity (Damanpour, 1991).

Regarding the literature it can be said that transformational leadership has a positive influence through organizational learning on the innovation process of an organisation. The key-factor of this influence is creativity. Both organizational learning and the transformational leadership style encourage creativity.
Chapter 1 Introduction

1.1 Introduction

This thesis investigates which factors of leadership styles influence the innovation process of an organisation. It tries to give understanding in the different factors of leadership styles that stimulate factors of the innovation process. The introduction gives an indication of the problem, and also describes the problem statement that is central in this thesis. The introduction also gives the research questions and the relevance on the academic and managerial field. Furthermore the introduction describes the way the research is conducted and the way the data is collected. The chapter ends with the structure of the thesis.

1.2 Problem Indication

Innovation is becoming more and more important for consumers but also for organisations. Markets are changing rapidly. If an organisation wants to be/or stay successful, it has to create a new market, or has to adapt to the changing or new market. An organisation can shape a new market by creating innovative products. For doing this an organisation has to be managed in the direction towards innovation. In other words now a days, it has to manage innovations.

Christinsen (1999) describes the management of innovation as the overriding responsibility of the manager of today. Eventhough, much is written about different leadership styles and also about leadership styles that influence the innovation process, less is known about the effect of the different factors of a leadership style on the innovation process of an organisation. Wolfe (1994) underscribes this by saying that the understanding of innovative behaviour is underdeveloped in organisations. Also Tidd (1997) adds that the research is fragmented and there is little interaction between different theories.

For example Burns (1978) describes a theory of two streams in leadership styles, the transformational and the transactional leadership style. According to Judge and Piccolo (2004) transactional leaders encourage their subordinates to think beyond short-term goals. Bass (1985) describes that leaders that have a transformational leadership style, articulate a shared vision towards subordinates and also stimulate them intellectually. In contrary to transactional leadership, where “*the transactional leader give followers something they want in exchange for something the leader wants.*” (Judge and Piccolo, 2004:755).

These leadership styles that define the behaviour of subordinates can be influenced by the leader. The leader is the one that can take the action. The factors that encourage the innovation process by
subordinates are not described by this main theory. However, perhaps one of the streams stimulate innovation more than the other. If this is the case, the question is what factors of a leadership style stimulate innovation. Aragón-Correa, García-Morales and Cordón-Pozo (2007) describe that organizational learning has an influence on firm innovation, and that transformational leadership has a direct influence on organizational learning. This provokes that leadership has an indirect relationship on the innovation process of an organisation through organizational learning. Panuwatwanich, Stewart and Mohamed (2008) describe that there are three key constructs for creating a ‘climate’ for innovation. One of these key constructs is leadership for innovation. This thesis is to express which factors of a leadership style influence the innovation process of an organisation.

1.3 Problem statement

- What is the influence of a leadership style through organizational learning on the innovation process of an organisation?

At this point an underling of innovation process will be in place. In this research innovation process is described through the theory of Hoffman and Hegarty (1993). According to Hoffman and Hegarty innovation in an organisation occurs in two ways, in the development of new products/markets and new and more efficient administrative mechanisms, through new systems for planning and control.

1.4 Research Questions

- Which factors determine the innovation process of an organisation?
- Which factors of leadership stimulate the innovation process?
- Under which factors will organizational learning influence the innovation process?

1.5 Relevance

From an academic point of view the thesis can contribute to the integration of leadership styles with the innovation process. The factors from leadership styles that have a effect on the innovation process from different theories can be integrated and thereby can give an intergrated insight on managing

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1 The theories that will be investigated about the innovation are the existing main theories that are widely accepted and are frequently written about in A-journals.
2 The theories that will be investigated about leadership are the existing main theories that are widely accepted and are frequently written about in A-journals.
3 The theories that will be investigated about organizational learning are the existing main theories that are widely accepted and are frequently written about in A-journals.
innovation. Besides comparing different theories about innovative leadership a relationship can be giving towards the factors of the innovation process of an organisation.

The managerial relevance for strategic management is the clear insight in innovation management. Through a clear perspective of the factors of a leadership style that enhance the innovation process of an organisation, managers in different worksfields can perhaps better understand these factors and how to apply them.

1.6 Research design and data collection

The type of research that is conducted is descriptive with the objective to understand the characteristics of theories about the innovation process and leadership styles. The specific method is a literature review. The main concepts, which are investigated are the ‘traditional’ theories about transaactional and transformational leadership by Burns (1978), the secondary reviews about this theory by Bass (1985) and Judge and Piccolo (2004). Also the article from Elenkov, Judge and Wright (2005) that investigate the relationship between strategic leadership and innovation will be investigated. Articles that also found to be interesting are the articles from Aragón- Correa, García-Morales and Cordón-Pozo (2007), Panuwatwanich, Stewart and Mohamed (2008) and Salama and Storey (2002).

The dependent variable which is examend is the innovation process of an organisation and the independent variable that is examend is leadership styles. According to Aragón-Correa et al., (2007) leadership has a strong indirect effect on innovation through organizational learning. The mediating variable of leadership on the innovation process is organizational learning.

Through the reading of many articles of different authors on innovation and leadership, a better view on the topics is given. The data collection of the research are secondary sources. The data that is collected is found in library catalogues and other information sources of Tilburg University. The following examples of key-words where used to find interesting articles: Innovation process, Leadership, Strategic leadership, Transformational and transactional leadership, Managing innovation, Innovation Culture, CEO leadership and Organizational Learning. The type of publications that are used to investigate the relationship are well-known A- journals. Articles from A- journals like Strategic Management Journal and the Journal of Management Studies are the foundation of this research.
1.7 Structure of the thesis

Chapter two gives the factors that determine the innovation process of an organisation and also gives an analysis of these factors. Chapter three gives explanation about the concept of leadership. The main theories are analysed. In the conclusion the factors from leadership styles that stimulate the innovation process are discussed.

Chapter four gives an description of organizational in relationship with the innovation process and leadership. The relationship between leadership and organizational learning and the relationship between organizational learning and the innovation process of an organisation is analysed.

Chapter five gives the conclusions concerning the relationship between leadership styles and the innovation process. Also in this chapter can be found discussion topics and some managerial recommendations.
Chapter 2 Which factors determine the innovation process of an organisation?

2.1 Innovation

Innovation is becoming more and more important for organisations. It is a responsibility for organisations to be successful. Much research is devoted to innovation and many researchers described different dimensions of innovation. According to Damanpour (1991), one of the purposes of studies on innovation is to demonstrate the existence of different dimensions of innovation. For example Daft (1978), Kimberly and Evanisko (1981) and Damanpour (1987) distinguish innovation in administrative and technical dimensions. Dewar and Dutton (1986), Ettlie, Bridges and O’Keefe (1984) and Nord and Tucker (1987) distinguish innovation in radical and incremental innovations. This research on different dimensions of innovation leads to a better understanding.

Researchers focus their research on different topics in the field of innovation because of its broadness, like for instance product innovation, process innovation, innovativeness, diffusion of innovation and the adoption of innovation. It can be it is useful for consistency of the research to define the field in which the research is conducted. Damanpour (1991), Daft (1978), Damanpour and Evan (1984), Zaltman, Duncan and Holbek (1973), define a definition that gives overlap of different dimension types of innovation pertaining to all parts of the organisation and aspects of the operations of the organisation, they define innovation as; “the adoption of an internally generated or purchased device, system, policy, program, process, product or service that is new to the adopting organisation”.

(Damanpour, 1991:556)

According to this definition innovation can be seen as almost everything new in an organisation. According to Damanpour (1991) an innovation can be a new product, service, production process, organisation structure, administrative system, plan or program. Hoffman and Hegarty (1993) distinguishing innovation in an organisation in the development of new products/markets and new and more efficient administrative mechanisms, through new systems for planning and control. In this thesis this distinguishing from Hoffman and Hegarty is used to define the dimensions of the innovation process. However, there are many definitions and one can define one by themselves because of its broadness and overlapping of most dimensions of innovation this definition is used to describe the relationship between a leadership style and the innovation process. It can be said that if you want to relate leadership styles to the innovation process a broad definition is needed to relate different factors to different factors of the innovation process.
2.2 The importance of innovation

Innovation is mostly linked to the effectiveness of the organisation. When one, thinks of an innovative organisation one thinks that this organisation is doing things right and makes a better profit than non-innovative organisations. Thinking by heart people see innovative organisations as more successful than organisations who fail to be innovative. The adoption of innovation is intended to contribute the performance of the organisation (Damanpour, 1991). So can it be said that if an organisation adapts more innovations than others it is likely to be more successful? This can not be answered by a yes or a no because of the fact that many other factors play an important role in the success of an organisation. Also what is success, this can be measured in different ways. However, an organisation will likely to be more successful than other similar organisations in the same markets if it will be more effective in the development of the innovation process.

Now a days in the globalized economic environment, customers have access to a great amount of information and suppliers have empowered customers to demand high quality products, a wide range of product features, good service and favorable price. These realities of the market place where we act in, puts pressure on organisations. An organisation has to increase its efficiency and effectiveness, but also and even more important it has to be creative in bringing product and processes to the market (Andriopoulos and Lowe, 2000; Cummings and Oldham, 1997; Tierney, Farmer and Graen, 1999). In other words being innovative and acting as an innovative organisation is the demanding of the market now a days. And nevertheless it be assumed that effectiveness and efficiency is related to innovativeness. Being innovative by creating new products and processes before others do, brings first movers advantages associated with learning and incumbency effects. Late comers who adapt the products and processes from the innovative organisation who brought them to the market have to invest larger to compete and have to take more risks because of the competitive strengths of the established innovative organisation (Teece, 1993). Many researchers describe the importance of being innovative and the important of bringing innovations to the market by new products or new processes.

2.3 Important factors of the innovation process

According to Damanpour (1987), innovation is subjected to three different influences (individual, organizational and environmental influences). Of these three influences, organizational influences has been the most studied influence in the theory. According to Damanpour (1987), Kim (1980) and Kimberly and Evanisko (1981), organizational influences are the primary determinants of innovation. Looking and analysing the theory it can be assumed that the organization of innovation is the most important influence factor of innovation.

Many writers underscribe creativity as an important factor for innovation, like for example Burgelman, Kosnik and van den Poel (1988) describe creativity as the key-factor of the innovation.
process. Through creativity new products and processes are created, people who are creative are one of the factors of these creating processes. It can be assumed that creative behavior is of some very importance to innovation. Like for example according to leadership style theories like transsactional and transformational leadership Burns (198), creativity can be stimulated through a certain leadership style.

Many have researched the factors that stimulate creative behavior in groups and organisations. Amabile (1998) describes three important factors for creating creativity in groups and organisations, creativity thinking skills, expertise based on past experience and a creativity work environment. According to Oldham and Cummings (1996) creativity personal attributes and organizational factors like supportive supervision and job complexity are the most important factors of creating innovation. Even though, many other factors can influence the innovation process, looking at the theory like for example Damanpour (1987), Kim (1980) and Kimberly and Evanisko (1981), it can be said organizational influences are the primary influences on the innovation process and creativity is an important key factor of innovation.
Chapter 3 Which factors of leadership stimulate the innovation process?

3.1 Introduction to leadership

Throughout history there have been great leaders who changed and shaped civilization as we know it. Many of these leaders had leadership skills that were progressive. Like Alexander the Great of Macedonia, who more shaped civilization more than any other historic leader throughout history. According to de Vries (2003), Alexander the Great taught the world many lessons in leadership. One of these leadership lessons was to encourage innovation. He realized the competitive advantage of innovation, thereby his warmachine was by far the advanced of his time. His innovative leadership skills were not only military but also in the fields like biology and zoology where his actions led to further developments in these areas of science (de Vries, 2003).

Looking at history there is shown that some leaders changed history through innovative leadership skills, what can there be said about leadership in relation to innovation today, tomorrow and many years to come? By looking at the factors of leadership that stimulate innovation, it can maybe given an understanding.

3.2 Leadership

When one asks, what is a leader and what is leadership? Some say leadership is leading people by giving strict orders. Others say leadership is communicating and transferring a vision towards your employees. Much is written and many have been giving a definition to leadership. When one starts to search for a definition of leadership one can find the following definitions;

According to Hambrick (1989) and Wright, Kroll, and Parnell (1998) leadership can be defined as “a management activity through which the leader secures the cooperation of others in pursuit of a vision” (Elenkov, Judge and Wright, 2005:668)

The members of the GLOBE study, a leading study that has been done conducted by 45 researchers from 38 countries, defined leadership from their different viewpoints as “the ability of an individual to influence, motivate, and enable others to contribute toward the effectiveness and success of the organisations of which they are members” (House, Hanges, Javidan, Dorfman and Gupta, 2004:15).

According to House et al., (2004) The basis of almost all definitions concerns that leaders influence others to help executing group objectives or organizational objectives. The variety of definitions is
appropriate because the purpose of the research should drive the definition of leadership (House et al., 2004).

However, there is little consensus on how leadership can be defined (Bass, 1990; Yukl 2002). In the late 70’s Burns introduced a concept that describes two streams in leadership styles, who are till now a days frequently used to describe a leadership style. According to Elenkov, Judge and Wright (2005), a considerable amount of research has been done that support these two styles of leadership. (Avolio and Bass, 1999; Bass, 1985, 1998; Cannella and Monroe, 1997; Hunt, 1991; Podsakoff, MacKenzie, and Bommer, 1996; Shamir, House and Arthur, 1993; Waldman, Ramirez, House and Puranam, 2001; Yukl, 2002). The leadership study of Burns (1978) made important advances to the understanding of leadership factors and the effects within organizational behavior (Elenkov, Judge and Wright (2005). Even though, there are others who describe different theories of leadership styles the considerable amount of research that it conducted through the theory of Burns (1978) argue for the importance of this theory. And therefore the study of Burns (1978) and further reviews on this theory will be examined to describe the relationship with innovation.

3.3 The basics transactional and transformational Leadership

Burns (1978) introduced the concepts of transactional and transformational leadership styles. According to Burns (1978) the difference between transactional and transformational leadership styles lies in what leaders and subordinates offer to each other. Bass (1985) redefined the theory of Burns and according to Bass it is too strict to see transformational and transactional leadership as opposites because this are separate concepts. However, there is no consensus about seeing transformational and transactional leadership as opposites. Burns (1978) introduced a new way thinking about leadership and Bass (1985) add new thinking to this theory and hereby the theory began to evolve. Many have reviewed and used the theory of Burns for further research.

Burns (1978), transactional leadership refers to the exchange of resources between the leader and the subordinate. Transactional leaders focus on the proper exchange of resources, the transactional leader gives the subordinates something what they want in exchange for something what the leader wants (Judge and Piccolo, 2004). The relationship between a transactional leader and subordinate is the exchange of resources for the desired performance (Howell and Aviolo, 1993). The transactional leader works within the existing systems and acts in self-interest.

On contrast to the transactional leadership style, a transformational leader acts as a leader who articulates a shared vision, intellectual stimulates subordinates, provides a great deal of support to
individuals, recognizes individual differences, and sets high expectations (Bass, 1985). Judge and Piccolo (2004:755) define transformational leadership as “offering a purpose that transcends short-term goals and focuses on higher order intrinsic needs”. According to Judge and Piccolo (2004) this results in that subordinates identify upon themselves with the needs of the leader. Transformational leadership concentrate beyond only the exchange of resources and concentrate their efforts on long term goals, inspire subordinates to pursue a vision that is created by the leader and change or align systems to accommodate that vision (Howell and Avolio, 1993).

According to Elenkov, Judge and Wright (2005) transformational leadership and transactional leadership in different amounts and intensities can be utilized by the same manager while also complementing each leadership style.

According to Bass (1985) there are four dimensions of transformational leadership, charisma or idealized influence, inspirational motivation, intellectual stimulation and individualized consideration and there are two forms of transssactional leadership, contingent reward, management by expection active-passive and one non-leadership style called laissezfaiare. These forms are well known in academic research on leadership and frequently used as basis for emphirical and literature research on leadership styles.

**Transactional leadership**

The word transactional is derived from the word transssaction. In the dictionary the definition of transsaction can be found as; “an instance or process of transsacting something”. The definitions of transactional by Burns (1978), Bass (1985) and Judge and Piccolo (2004) all describe some sort of transsaction between people. It can be said that transssactional refers to the transsaction of resources between leader and subordinate, offering in this transssaction what the leader and subordinate wants. Assuming that these contingent reward and management by exception active-pasive have not a strong positive relationship to innovation it is usefull to describe these forms to understand the whole theory of Burns (1978) and to clarify the difference between transformational and transssactional leadership.

1. **Contingent reward**

According to Judge and Piccolo (2004) contingent reward is the degree to which the leader sets up constructive transactions or exchanges with subordinates. The leader sets the expectation level and rewards the subordinates for meeting these expectations.

2. **Management by exception active-passive**

Management by exeption is the degree to which the leader takes action in a corrective way towards subordinates on basis of results between leader and subordinates transactions. The difference between active exception and pasive exception lies in the timing of the intervention of the leader. Active leaders monitor and passive leaders wait (Judge and Piccolo 2004).
Transformational Leadership

The word transformational is derived from the word transformation, *the act or process of transforming, change in form*. The transformational leadership can be divided into four forms according to Burns (1978).

1. Charisma, or idealized influence
Charisma or idealized influence is the degree to which the leader behaves in admirable ways that cause subordinates to identify with the leader, charismatic leaders display conviction and take stand to the emotional level of subordinates (Judge and Piccolo, 2004). According to Elenkov, Judge and Wright (2005), these leaders are endowed by their subordinates as having great personal capabilities.

2. Inspirational motivation
Inspirational motivation is the degree to which the leader articulates his/her vision towards the subordinates that is accepted as inspiring. The inspirational motivational leader communicates optimism about goals, sets a high standard and provides meaning for the tasks of the subordinates (Judge and Piccolo, 2004). Elenkov, Judge and Wright (2005) add to this definition that the leader communicates clear and sets expectations that subordinates want to meet.

3. Intellectual stimulation
According to Judge and Piccolo (2004) intellectual stimulation is the degree to which the leader solicits the ideas of subordinates, takes risks and challenges assumptions. Intellectual stimulative leaders encourage *creativity* in their subordinates. Leaders who stimulate intellectual, question existing assumptions and reframe issues in new ways (Elenkov, Judge and Wright, 2005). It can be assumed that this leadership style, that encourage creativity among subordinates and let the leader reframe old issues in new ways, has an influence on the *innovation process* of an organisation.

4. Individualized consideration
Individualized consideration is the degree to which the leader attends to each of the subordinates needs. The individualized considerative leader acts as a coach and listens to the needs and concerns of the subordinates (Judge and Piccolo, 2004). These leaders create a supportive climate for new *learning opportunities* (Elenkov, Judge and Wright, 2005).

Non-leadership style: Laissezfaire
Burns (1978) introduced laissezfaire as a leadership style. Laissezfaire is the absence or avoidance of leadership. Bass (1985) argued that laissezfaire has some similarities with the passive style of management by exeption because of the fact that the leader waits and stays passive. Although there is some resemblance with management by exeption passive, Aviolo and Bass (1999) and Bass (1998) argue that laissezfaire should be seperated from any leaderstyle form. Analysing the theory of Burns (1978) and Aviolo and Bass (1999) and Bass (1998) it can be said that Laissezfaire can be seen as the shortcoming of leadership. In other words laissezfaire is the absence of a leaderstyle of a leader. This
leadership style can not be seen in relationship with the innovation process because of the absence of a leadership style. According to Elenkov, Judge and Wright, 2005 Laissezfaire has no influence on business performance. Therefore will not further analysed in this thesis.

3.4 What is the theory of managers on leadership styles that innovate?

For the understanding of the influences of a leadership style on the innovation process, it can be important to understand the views of managers on the field of theories that innovate. The study of Salaman and Storey (2002), provides a better understanding. Salaman and Storey (2002) provide an insight how managers encourage innovation within their organisation, what theories do they use and how do these theories relate to their wider organizational experiences? Salaman and Storey (2002) have done an empirical research by interviewing 20 top managers and other key managers of a large multinational conglomerate organisation in a high technology market.

Most respondents knew the importance of innovation for the organisation because of the rapidly changing market and agreed that innovation was crucial for the surviving of the organisation. Many managers stressed out that innovation is bred through necessity; "You have to have a need which overcomes your reluctance to be innovative because being innovative requires a risk" (Salaman and Storey, 2002:156). Other main points that the managers stressed out where that, innovation requires courage, entails risktaking, and innovation is looking foward so it can not be seen as the way it was in the past and innovation requires question thinking about the strategy of the organisation (Salaman and Storey, 2002).

Perhaps related to an “ideal innovative” leader, from the perspective of managers that participate in this research, it can be said that an innovative leader, has to take risks, has to think outside the box, has to have a strategy/ vision for the future and has not to stand still to the past.

The dilemna’s that the respondents pointed out about leadership and analysed by Salaman and Story (2002) where, that many leaders have fear for the unknown, want to play safe, not choose risk taking actions Not one action towards innovation is the wright one but there can be several ways to achieve innovation, many leaders do not know how to structure and organize innovation and last but not least, leaders do not know how organizations could encourage innovation (Salaman and Story, 2002).

Perhaps the managers gave answer to the question how organizations could encourage innovation. Assuming through a leader that has the factors of an “ideal innovative” leader.
3.5 The effect of transformational leadership on innovation

Looking at the effect of transformational and transsactional leadership styles it can be said that both styles have influence on business performance (Elenkov, Judge and Wright, 2005). Howell and Avolio (1993) describe that transsactional leadership is negatively related to business performance, this includes the two forms of transsactional leadership contingent reward and management by expection passive-active. Because of the negative effect of transsactional leadership on business performance and therefore assuming that this also has a negative effect on the innovation process, the effects of transsactional leadership on innovation is excluded in this thesis.

According to Aragón-Correa et al., (2007), a leadership style has traditionally emphasized as an important influence on the firm’s innovation. Leaders have a great influence on the decision making on the introducing of new ideas, specific goal setting, and the encouraging of innovation, (Aragón-Correa et al., 2007). Aragón-Correa et al., (2007) who have done empirical research on the influence of leadership and organizational learning on innovation and performance, through interviewing 408 different CEO’s of different companies in Spain, decribe that there is an effect of leadership on innovation.

According to Aragón-Correa et al., (2007) there is a significant and positive relation between transformational leadership, organizational learning, innovation and performance. Organizational learning is defined by DiBella, Nevis and Gould (1996) and Zollo and Winter (2002) as; “a collective capability based on experiential and cognitive processes and involving knowledge acquisition, knowledge processes and involving knowledge utilization”. (Aragón-Correa et al., 2007:350)

Both transformational leadership and organizational learning, have a simultaneously influence on innovation (Aragón-Correa et al., 2007). According to Aragón-Correa et al., (2007), organizational learning has as stronger direct influence on innovation than the direct influence of transformational leadership on innovation. So it can be said that both organizational learning and transformational leadership have an influence on innovation and that the direct influence of organizational learning on innovation is stronger than the direct influence of transformational learning on innovation. According to Aragon-Correa et al., (2007) there is a strong influence of transformational leadership on organizational learning.

It can be concluded that transformational leadership has a strong indirect effect on innovation through organizational learning and has lesser direct effect on innovation. Therefore can be excluded that transformational leadership has none effect on innovation. According to Aragón-Correa et al., (2007) transformational leadership and organizational learning are internal conditions for organisations that want to innovate.
According to Aragón- Correa et al., (2007) several aspects or factors of transformational leadership are relevant for innovation. The aspects that are relevant are, the vision of the transformational leader, effective communication, sharing values and the encouragement for innovation. According to Dess and Picken (2000), transformational is more linked to the a succesful innovative organisation than transactional leadership.

3.6 The factors of transformational leadership that influence innovation

Looking at transformational and transactional leadership, it can be said that transactional leadership is the “old way” of leading and transformational leadership, is transforming and finding new ways of leading. According to Aragón- Correa et al., (2007) transactional leadership has a focus on top- down decisions and the standardizing of procedures. On the other hand there is transformational leadership that concentrates on value and development of a vision to inspire the subordinate to follow this vision. According to Judge and Piccolo (2004) intellectual stimulation a form of transformational leadership, whereby the leader creativity encourages by soliciting ideas, taking risks and challenges assumption. Is this not what the managers theories suggest that a innovative leader needs?, from the theory of Salaman and Storey (2002).

Looking at what managers say about what they want to see in a innovative leader is, taking risks, thinking outside the box, not looking at the past and having a strategy and vision can be referred to the transformational leadership, or maybe assuming this fits to the form, intellectual stimulation. Perhaps the factors that influence innovation positively are, risk taking, creating a strategy and vision, outside the box thinking and looking forward to the future.

According to Aragón-Correa et al., (2007) there is a positive relation to transformational leadership and innovation, through organizational learning but also there is a direct but smaller positive relation between transformational leadership and innovation. This underscores that transformational leadership influences innovation in a positive way.

According to Aragón-Correa et al., (2007) CEO’s willingness to accept risks and mistakes is the first step to the firms innovation. Also helping organizational members creating and using knowledge in a good internal environment are steps towards for firms to be innovative. Looking at the theory of transformational and transactional leadership it can be said that transformational leadership influence innovation positively. Looking at the factors it can be said that risk taking, outside the box thinking, creating a vision and strategy and looking ahead towards to the future are the key-factors that help the innovation process.
Chapter 4 Under which factors will organizational learning influence the innovation process?

4.1 Introduction to knowledge and learning

Knowledge as power and as resource is of strategic importance to organisations (Liao, Fei and Liu, 2008). Even industrial revolutions and the change and creating of technology are based on knowledge. Knowledge creating is a very important factor to be a successful organisation. So it is a fact that knowledge is of most importance to be successful as an organisation, assuming that new ideas and product are created from some kind of knowledge, knowledge is related to innovation. According to Liao, Fei and Liu (2008:183) ; "Innovations are the prerequisite of knowledge creation and the essence of knowledge management". Knowledge is related to learning, because through learning knowledge is created. People who have the ability to learn can create knowledge so when you have the knowledge some kind of learning process is foregone.

Looking at the civilization where we live in, it can be said that through the creating of knowledge and through the ability of learning people shape innovation and thereby a modern civilization towards the future.

4.2 Organizational learning

Learning leads to new concepts, ideas and insights and organisations learn like people. So when organisations learn it is called organizational learning. According to Alegre and Chiva (2008) organizational learning, the learning process of the organisation, is the change to the organisation structure that improves or maintains the business performance. If one searches for a definition in the literature of capability of organizational learning one can find the following definition.

The capability of organisations to learn is defined by Alegre and Chiva (2008:315) as; “a bundle of tangible and intangible resources or skills the firm uses to achieve new forms of competitive advantages”.

So according to Alegre and Chiva (2008) an organisation who has the capability to learn can compete with other companies. Looking at the definition of organizational learning by Dibella, Nevis and Gould (1996) and Zollo and Winter 2002 as; “a collective capability based on experiential and cognitive processes and involving knowledge acquisition, knowledge sharing and knowledge utilization (Aragón- Correa, 2007:350) it can be said that organizational learning is a knowledge process.
Many researchers give a positive relationship between organizational learning and innovation, like for example Alegre and Chiva (2008), Aragón-Correa et al., (2007), Jérez-Gómez, Cespedes-Lorente, and Valle-Cabreraa (2005). This research underscribes a positive relation between organizational learning and innovation. Also Aragón- Correa et al., (2007) describe that a leadership style has a strong positive relationship through organizational learning on innovation. According to this literature organizational learning is from importance to the innovation process of an organisation.

According to Liao, Fei and Liu (2008) there are two forms of organizational learning. These two forms are frequently used in the academic research on organizational learning. The first form is exploitative learning. Exploitative learning is a reactive first order form that is the operationalisation of organisation learning. On the other hand there is explorative learning, is a discovering, variated form that is flexibel and innovative. This second order form occurs when organisations act different than the existing insights.

4.3 The impact of organizational learning on innovation

According to most literature organizational learning has a positive influence on innovation. Aragón-Correa et al., (2007) describe that there is a strong positive relation between organizational learning and innovation. It can be said that the innovation process of making new products needs a learning process, so learning is coherent to the innovation process.

According to Hult, Hurley and Knight (2004), the management of an organisation if it wants to be innovative has to embody a clear learning orientation. It can be said that the management has an influence on the embodying of the learning climate and therefore on organizational learning.

Organizational learning sets the basis for new ideas and is a supporting factor for creativity, also it increases the ability to use the creativity (Damanpour, 1991). Looking at which factors has a positive relationship on innovation, organizational learning is one. Eventhough, organizational learning is a factor like leadership style, there are also other external factors that play a role on the innovation process. Like for instance the cash flow of an organisation, without the right amount of cash flow an organisation can not invest in good managers who can create an learning climate and can act as transformational leaders. Like Teece (1993) describes of the view of Chandler, a “three pronged investment”, an investment in production, distribution and management is needed to be succesfull as an organisation.
Chapter 5 Conclusion, discussion and recommendations

5.1 Main conclusion

Before presenting some conclusions convey some concluding remarks, it is important to briefly recapitulate some leading theories.

Looking at the literature it can be shown that innovation can be measured through different dimensions. Due to its relationship with leadership, it is chosen in this thesis to define innovation broadly. Taken into account it's overlapping multiple dimensions innovation is described as the definition of Hoffman and Hegarty (1993), the development of new products/markets and new and more efficient administrative mechanisms, through new systems for planning and control. It can be concluded that innovation is of importance for the effectiveness and efficiency of the organisation.

According to Teece (1993), being innovative brings first movers advantages associated with learning and incumbency effects. The most important factors of the innovation process can be described through the existing literature, according to Damanpour (1987), Kim (1980), and Kimberly and Evanisko (1981), organizational influences are the primary determinants of innovation. Much research such as that from Burgelman, Kosnik and van den Poel (1988) indicates that creativity is the key factor of the success of the innovation process. So assuming that the organisation of innovation is the most important determinant of the innovation process and creativity is a key-factor of its success. The organisation of creativity can be seen as very important.

Organisation of creativity can be seen as a action that has to be taken by management. The management tasks of an organisation are carried out by leaders. Leaders have a certain leadership style towards subordinates. According to the literature a very well known theory to describe leadership style is the transformational and transsactional stream of Burns (1978). Looking at this theory it can be said that Transformational leadership has a positive influence on the innovation process (Aragón- Correa et al., 2007). According to Howell and Avolio (1993) transsactional leadership has a negative influence on business performance and therefore assuming that this has also a negative effect on the innovation process, these effects are excluded from this thesis. The effect of transformational leadership on the innovation process is a direct positive influence. However, transformational leadership has also an indirect positive effect on the innovation process through organizational learning. Looking at the factors of transformational leadership that influences innovation, the form intellectual stimulation a form of transformational leadership whereby the leaders creativity towards the subordinate encouraged by soliciting ideas, taking risks and challenges assumptions, corresponds with the theories of what managers suggest that an innovative leader needs (Salaman and Storey, 2002). Looking at which
factors of a leadership style influence the innovation process positively, it can be assumed according to
the theory of Aragón-Correa et al., (2007) that risk taking, outside the box thinking, creating a
vision/strategy and looking ahead towards the future are key-factors for a leadership style that
influence the innovation process positively.

Organizational learning influences the innovation process directly in a positive way (Alegre and Chiva
(2008); Aragón-Correa et al., (2007); Jérez-Gómez, Cespedes-Lorente, and Valle-Cabreraa
influences the innovation process indirectly and positively through organizational learning. So it can
be said that organizational learning is an aspect that also has influence on the innovation process.
Organizational learning, that can occur in two forms namely (exploitative learning and explorative
learning) sets the basis for new ideas and is a supporting factor for creativity by increasing the using
ability for creativity (Damanpour, 1991).
It can be assumed that the transformational leadership style that encourages creativity has a connection
with the supporting factor for creativity of organizational learning.

Looking at the problem statement; What is the influence of leadership style through organizational
learning on the innovation process of an organisation? Regarding the literature it can be said that
transformational leadership has a positive influence through organisational learning on the innovation
process of an organisation. The key-factor of this influence is creativity. Both organizational learning
and the transformational leadership style encourage creativity. Looking at the separate factors of
transformational leadership it can be said that the factors risk taking, outside the box thinking, creating
a vision/strategy and looking ahead towards the future are also factors that are important for the direct
influence of transformational leadership on the innovation process.

5.2 Discussion

Eventhough transformational leadership and organisational learning have an influence on the
innovation process, there are also other factors that have an influence on the innovation process that
are not examined in this thesis, like for example Teece (1993) who suggests that a “three pronged”
investment (an investment in production, distribution and management) is needed to be successful as
an organisation. These other factors are excluded from this thesis but have to be recognized for the
understanding of all factors that have an influence on the innovation process.
5.3 Recommendations

In this thesis, the importance of the role of leadership and organizational learning in the innovation process in an organisation has been emphasized. In this thesis it has been tried to give generalized understanding of different theories of leadership styles, organizational learning and the innovation process. However much is written about like for instance leadership styles, less is discovered about which factors influence the innovation process (Wolfe, 1994). Much research sticks with generalized key-words like the stimulating of creativity and risk taking of managers.

My opinion is that the psychology, the human factor, plays an important role in the understanding of the influence of an leadership style on the innovation process. A better understanding of people plays in my opinion an important role. Each person is different and therefore we can raise the question to what extend it makes sense to prescribe how managers aught to act in generalized theories. Empirical research should answer this question and so therefore much more empirical research has to be done in the future.

5.4 Managerial recommendations

The literature describes that both transformational leadership and organizational learning has a positive influence on the innovation process. Therefore managers have to think about what kind of leader they are and they have to ask upon themselves do I stimulate creativity among my subordinates? My opinion is that managers have to reflect upon themselves and ask upon themselves if they lead by acting as a transformational or transsactional leader. Managers should use the transformational leadership style or transform their transsactional leadership style into a transformational leadership style.
References