

The Impact of Transformational Leadership on Organizational Innovation Moderated by Organizational Culture

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Abstract: This paper attempts to examine the impact of transformational leadership on innovation in the organizational level by looking at moderating role of organizational culture. Based on the literature in many developing countries, innovation is omitted and generally not considered as precedence in organizations though the ability to innovate is accepted as a key factor to future competitiveness of the firms. Previous studies show that, innovation may influenced by various factors and leadership can be one of the most important one. Leadership appears to be an important antecedent of the organizations ability to innovate and transformational leadership style seems to be more appropriate to explore and foster innovation activities. Therefore, this study is based on a critical review of leadership, focusing on transformational leadership theory and on the importance of innovation in the organization introduces a conceptual framework, in order to find the impact of leadership on innovation. The researchers will propose methods for data collection and measuring variables. This study will provide an insight for organizational leaders to develop a suitable leadership style and play an effective role in stimulating innovation and improving organization's capacities to compete and innovate in the challenging business environment.

Key words:: Transformational leadership, Organizational innovation, Organizational culture

INTRODUCTION

Current organizations are facing a dynamic environment, rapid change in technologies, globalization, knowledge growth, migration, climate changes and a high demand for new products and services. In order to grow and survive in such challenging environment, companies are trying to develop new and unique approaches to perform better. Whether the organization is developing products or providing services, creativity and innovation can be a good solution to become flexible while encountering such changes and organizations should become more innovative in order to grow. Innovation enables the organizations to look for latent opportunities using a different view, not just from a cost viewpoint, but also as a means of increasing capabilities and competitiveness.

Today, the current environment has challenged the traditional types of leadership. Gardner and Avolio mentioned that leaders with transformational style have more effect in stimulating and promoting innovation in organization (Gardner *et al.*, 1998). As it is obvious from the term associated with this type of leadership, transformational leaders, look for transforming and changing, which is necessary for innovation. Although leadership is an important factor in the life of every organization, "yet few studies have empirically examined the link between this factor and innovation at the organizational level (Jung *et al.*, 2003; p. 525)".

This paper reviews the impact of transformational leadership on innovation at the organizational level. In every organization, many factors exist which may reinforce this linkage. Accordingly, organizational culture may be one of them. Through this factor, organizations and leaders try to make a natural and foundational framework that helps the organization and individuals to accept creativity and innovation in the heart of all the changes that are happening as a basic cultural norm. In this regard looking for the moderating role of organizational culture in this relation will be a further objective of this research. The research design will be

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discussed later, followed by the presentation of findings. Based on these findings, suggestions for management implications and future research provided.

Literature review:

In organizational theories, innovation, leadership and culture have considered as important elements. Khan *et al.*, (2009) stated that Organizational innovation happens in the environment of the organizations and the meaning is to make something new, necessary and useful products or services. Several researchers (see for example Schumpeter, Thompson, Woodman *et al.*, Damanpour, Shepherd and Ahmed, Selden and MacMillan, Wilson and Douglas, and Griffa) described innovation in different ways but for so many years survival and leading innovation in the organizations is thought-out as an important subject and most challenging aspect for leaders (Schumpeter, 1934; Thompson, 1976; Woodman *et al.*, 1993; Damanpour, 1996; Shepherd and Ahmed, 2000; Selden and MacMillan, 2006; Wilson and Douglas, 2007; Griffa, 2008). There have been many studies on leadership (see for example Bass, Likert, House, Stogdill, Fiedler, and Conger) and several bodies of work on innovation (Bass, 1990; Likert, 1961; House, 1971; Stogdill, 1974; Fiedler, 1981; Conger, 1999). Surprisingly, as given the importance of leadership for stimulating innovation there has been very little done to address the link between leadership and innovation (Oke *et al.*, 2009).

Some scholars and researchers identified different leadership styles suitable for fostering innovation such as supportive, participative, vision setter, charismatic and collaborative etc. For example Bass, Harris, Roberts, Howell and Higgins, identified transformational leadership as an ideal style for encouraging and promoting innovation (Bass, 1985; Harris, 1985; Roberts, 1985; Howell *et al.*, 1990). Bass, Avolio, Jung and Benson noted that adaptive leadership is an important tool for responding the competitive business environment (Bass *et al.*, 2003). Adaptive leadership, which is known as transformational leadership, has five components. First is idealized influence refers to the leader's charismatic actions focusing on values, beliefs and norms. Second is attributive charisma, which is perception of the leader as being confident and powerful. Third is inspirational motivation that includes promoting followers by using some techniques, goal determinant and looking to the future optimistically. Fourth is intellectual stimulation, which is challenging followers to think creatively and last one is individualized consideration refers to leader's behavior that support follower's personal needs and their satisfaction.

To have a better understanding of the effect of leadership on innovation and supporting theoretical findings, present study will explore the impact of transformational leadership on organizational innovation. Jung mentioned that extending a research to this level of analysis have a good contribution to knowledge because only a few empirical studies have looked at the relationship of transformational leadership and organizational innovation (Jung, 2003).

Theoretical Framework:

Previous studies have focused on different dimensions and definitions of innovation at individual level and at organizational level. Schumpeter for the first time explained innovation process as creating new brand, products, services and processes and described the effect of innovation on the development of economy (Schumpeter, 1934). Later, innovation explained by other researchers in different ways and survival of innovation in the organizations is thought-out as an important subject for so many years but still "in most developing countries innovation is not a priority and is generally neglected by organizations (Gumusluoglu, and Ilsev, 2009)".

This problem exists in Iran also as a developing country (United Nations, 2005). Based on United Nations report there is no effective competition in Iran's vast majority of industries in order to cause innovation and change in technologies. This is an obstacle for motivation of firms to generate new ideas and products. In addition, there is a limitation of capacity in R&D and innovation at the enterprise and organizational level. Organizations have an important role in stimulating innovation through the interaction with customers, suppliers and research institution (like universities). While in Iran only a few companies have develop their own R&D capabilities. According to International Index of Innovation Confidence, that measures the consumer demand for innovation, represented by the Institute of Innovation & Information Productivity (IIIP), Innovation Confidence Index score for Iran in 2008 is 62 and this means that there is a high demand for innovation and the suppliers of innovation such as organizations must be able to respond this demand (Levie, 2010).

As has been mentioned, leadership is considered as an important factor in stimulating and deriving innovation in the organization. The type of leadership considered in this study is a set of behaviours that has come to labelled 'transformational leadership'. Transformational leaders have a look to future and enhance employee's commitment by redefining mission and vision. They use charisma, individualized consideration,

inspiration, and intellectual stimulation to promote innovation and employee's capacity to innovate.

Gumusluoglu and Ilsev cited that transformational leadership affects innovation specifically in organizational level and they found that these two factors have a serious effect on each other (Gumusluoglu and Ilsev, 2009). On the other hand, Jung *et al.*, (2003) mentioned that extending a research to this level of analysis have a good contribution to knowledge because only a few empirical studies have looked at the relationship of transformational leadership and organizational innovation. Furthermore, in order to have a better understanding of the effect of leadership on innovation, it is important to identify other related factors that can affect this relationship. Gumusluoglu and Ilsev also noted that analysing the moderating and mediating processes on this link would be a good proposal for the future research. Necessitating new ideas and challenging with changes will help people and organizations to perform in new ways (Gumusluoglu and Ilsev, 2009).

In this regard, there is a critical need to understand how consider the organizational culture in order to stimulating innovation as part of continual change. Transformational leaders can transform organizational culture through intentional teaching, coaching, role modeling, promotion, and other mechanisms and improve commitment and loyalty to innovation individually and in groups. They can make the atmosphere for innovation through the organizational symbols, and cultural interpretation. They can motivate employees to pursue goals through changes in the contracts unwritten commitments made between employees and employers. Jaskyte believes that "These propositions demonstrate the importance of considering organizational culture in assessing the relationship between leadership and innovation (Jaskyte, Kristina 2004)".

Martins pointed out that some researchers such as Schuster (1986), Johnson (1996), Judge, Fryxell and Dooley, Tesluk, Faar and Klein (1997), all agreed that organizational culture is conducive to the degree which innovative behaviour is motivated among personnel in an organization (Martins Ellen and Martins, 2002). in this way, present research propose a conceptual framework that draws from theoretical framework and background, which helps to have a direct look on the relationship between transformational leadership and organizational innovation (see Figure 1).

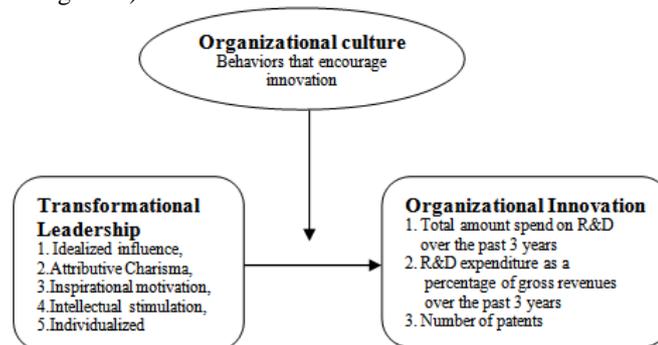


Fig. 1: Conceptual Framework

Research Design and Methodology;

Based on the past research by management scholars, a wealth of literature exists on transformational leadership; and considerable studies on innovation are available. However, research appeared to be limited with regard to the relationship of transformational leadership and organizational innovation and there is a lack of empirical studies and quantitative research to support the theoretical findings. In addition, because of the complexity of organizations and difficulties of research in a real workplace environment, researchers have focused on the level of individual employees and they believe that the organizational level merits further investigation.

In this research, companies from Industrial Management Institute 100 best factories list in Iran suggested as respondents. Variables will be measured using two different surveys: the first survey is to measure transformational leadership behavior, which is a widely used questionnaire named Multifactor Leadership Questionnaire (MLQ-5X) developed by Bass and Avolio (Bass and Avolio, 1992). The other survey measures the organizational innovation developed by Amid, Belli, Sohn and Toussaint (Amid *et al.*, 2002).

Conclusion:

Present study investigates the relationship between transformational leadership and organizational innovation with moderating effect of organizational culture in Iran as a developing country and none to our knowledge

has conducted before. Therefore, it can extend our understanding of organizational innovation and transformational leadership effects in countries that share similar structures, conditions, and institutions with Iran. Furthermore, recognizing and developing appropriate leadership type and culture for innovation in a given organizational context can be a potential organizational implication of this research.

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