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Leadership style and innovation atmosphere in enterprises: An empirical study

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ABSTRACT

Existing literatures have explored the positive effect of leadership style on innovation atmosphere from a team perspective. However, much attention has been paid to transformational leadership style, whereas studies on transactional leadership style are not available. To this end, this paper explores the relationship between the two leadership styles and innovation atmosphere in enterprises. The intermediary role that trust and individual identification play in the relationship between leadership style and innovation atmosphere is examined as well. We conduct a survey on 294 respondents and run hierarchical regression and adjustment regression. The results show that (1) transformational leadership style can facilitate to build trust and individual identification; (2) transformational leadership style is more helpful for building innovation atmosphere; (3) it is easier for leaders with transformational leadership style to build trust and that trust positively affects innovation atmosphere; (4) trust and individual identity are helpful for creating innovation atmosphere; (5) trust and individual identification play an intermediary role between transformational leadership style and innovation atmosphere; (6) trust does not play an intermediary role between transactional leadership style and innovation atmosphere, whereas individual identity does. Implications from the findings are discussed.

1. Introduction

With the rapid development of social economy and the changing of business environment, market competition is getting fierce. In order to cope with competition, enterprises must innovate continuously (Li & Zheng, 2014). As more and more enterprises start to improve their competitiveness via technological innovation, innovation becomes an important value-added activity. The importance of technological innovation for economic growth has been widely recognized in existing literature (Achi et al. 2016; Chen and Chen, 2016; Cheng et al. 2018; Kumar and Chanda 2018; Li, 2017; Li, Xu and Zhao 2018; Lu 2017; Sachdeva et al. 2016; Sharma & Chanda 2017; van de Werff et al. 2017; Vuletic et al. 2017; Wekerle, Trabasso, Loures da Costa, Villela, Brandão, & Leonardi, 2017; Xu et al., 2014, 2017, 2018; Xu and Duan, 2018; Zhang et al. 2018). Emerging economies have made significant contributions to the global economy in recent years (Lebedev, Peng, Xie, & Stevens, 2015; Li, 2013; Padmanathan, Govindarajan, Ramachandaramurthy, Selvi, & Jeevarathinam, 2018; Qiao & Yang,

2015). Particularly, China has made a great success in economic development. In order to promote a long-term healthy development of economy, Chinese government vigorously encourages technological innovation and entrepreneurship. It is hoped that the socio-economic change can get more vitality from technological entrepreneurship. But other than providing impetus, knowledge economy also sets higher requirements for enterprises to generate innovation. The complexity of technology, the uncertainty of innovation, and the finiteness of resources generate challenges for enterprises. As such, it is important for enterprises to achieve effective and efficient technological innovation guided by proper leadership. Meanwhile, enterprises need an innovation-friendly atmosphere that inspires their creativity and promotes technological innovation (Li & Zheng, 2014; Tsai, Horng, Liu, & Hu, 2015). Enterprises need to know well about how to build innovation-friendly atmosphere and what factors affect the atmosphere. Among the many factors, leaders' leadership style is found to determine the atmosphere for enterprises to perform innovation (Li & Zheng, 2014; Noruzy, Dalfard, Azhdari, Nazari-Shirkouhi, & Rezazadeh, 2013).

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Existing literatures have explored the positive effect of leadership style on innovation atmosphere from a team perspective. However, much attention has been paid to transformational leadership style, whereas studies on transactional leadership style are not available (Liu, 2013). Particularly, studies on the relationship between transactional leadership style and innovation environment through the lens of trust and individual identification are missing. Accordingly, this paper explores the relationship between the two leadership styles and innovation atmosphere in enterprises. We also examine the intermediary role that trust and individual identification play in the relationship. We conduct a survey on 294 respondents and run hierarchical regression and adjustment regression. The results show that transformational leadership style can facilitate to build trust and individual identification, that trust and individual identity are helpful for creating innovation atmosphere, that trust and individual identification play an intermediary role between transformational leadership style and innovation atmosphere, and that trust does not play an intermediary role between transactional leadership style and innovation atmosphere, whereas individual identity does. We also find that it is easier for leaders with transformational leadership style to build trust and that trust positively affects innovation atmosphere. Implications for practitioners are discussed.

2. Literature review

2.1. Leadership style

Leadership style is a constant behavioral model and trait expressed in leaders' behavior. Burns (1978) categorizes leadership style into transformational leadership style and transactional leadership style. Transformational leadership style values employees' ideal and values, motivates them to put organization interest on the first place, and drives them to achieve the state of best self (Burns, 1978). According to Burns (1978), transformational leadership style helps employees achieve a higher level of demand and build an atmosphere of trust between leaders and team members. In this way, team members can realize the importance of their tasks. Li and Shi (2005) identify four dimensions of transformational leadership style, namely vision incentive, moral model, leadership charm, and individualized consideration. They further compile a scale for measuring transformational leadership style. According to Li and Shi (2005), vision incentive distributes meaningful and challenging tasks to team members aiming for making them aware of leaders' expectation. The goal of vision incentive is to generate work enthusiasm among subordinates and to let them achieve higher performance. Moral model is unique because it is developed based on Chinese culture. Leadership charm means to provide values for team members, to interpret the significance of tasks, and to arouse their sense of pride for obtaining respect and trust. Individual consideration takes into account the capacity and demand. It meets reasonable needs of team members in time to let them work hard by relying on their leaders. Similarly, Burns (1978) identifies three dimensions for transformational leadership style, including charismatic-inspirational leadership, intellectual stimulation, and individualized consideration.

Leithwood (1994) defines transactional leadership style as a leader model using various compensation incentive to exchange outcomes needed. Transactional leadership style is a task-oriented and interactive leader manner. It relies on timely and appropriate incentives. Different from transformational leadership style, transactional leadership style helps organizations achieve their goals by making job reward and remuneration clear (Burns, 1978). Bass (1985) argues that intellectual incentive might motivate subordinates to find problems actively and solve them. The essence of transactional leadership style is exchange, which motivates subordinates to work by offering material incentives. It aims to meet team members' inner needs, to give them clear direction, and to motivate followers to work by the exchange in time (Bass, 1985).

By understanding team members' demand fully and defining their roles, leader with transactional leadership style help team members finish their jobs (Chen & Shi, 2007). Transactional leadership style pursues the unity of finishing work and self-fulfillment. It aims to let leaders and team members benefit from each other. Bass (1985) divides transactional leadership style into two dimensions: contingent reward and management by exception. Contingent reward refers to appropriate reward offered by leaders to motivate team members. As a kind of external incentive, contingent reward includes commitment and fulfillment. Management by exception can be grouped into positive ones and negative ones (Bass, 1985). Positive management by exception refers to observing team members at any moment to ensure their tasks are finished. Negative management by exception is implemented when requirements are violated and errors occur.

2.2. Trust and individual identification

Trust has been defined by scholars in different ways. For example, Sabel (1993) notes that trust is a kind of faith, in which cooperative is convinced so that nobody obtains his/her own interests via using others' vulnerability. Mayer, Davis, and Schoorman (1995) think that trust means that one party has the ability to control the other one, but it is willing to give up the ability to make the other party willing to believe things to their advantage. Anderson and Narus (1990) argue that trust is the cooperation among people about the degree to accept chaos. Rousseau (1998) defines trust as a kind of psychological state, which is on the basis of positive expectations as well as willing to maintain the relationship with others and accept the risk. Sapienza and Zingales (2012) define trust as the expectation that one person (or institution) will perform actions that are beneficial, or at least not detrimental. Lins, Servaes, and Tamayo (2017) argue that the definition of trust should highlight the probabilistic nature of trust, the concept of cooperation, and the inability to monitor others' actions ex-ante.

The trust of leaders on subordinates is the degree of how much leaders are willing to bear the risk of being hurt by evaluating subordinates' credibility. In an organization, subordinates are hoped to be able to express the expected response and tendency so as to achieve organizational goals (Ding, 2007). Trust can reduce the uncertainty of behavior and help members gain confidence.

There are three types of trust inside an organization, namely deterrence-based trust, knowledge-based trust, and identification-based trust. Regardless of the type of an organization, deterrence-based trust is the weakest one, because it may be destroyed by a tiny defection. Deterrence-based trust depends on information exchange. People choose to understand and forgive others by listening to their interpretation for defections. Many organizations are built on acquaintance. Identification-based trust is the ideal one. When identification-based trust exists between leaders and team members, the work atmosphere is relaxed. Such atmosphere will contribute to the mutual trust between leaders and subordinates. In this paper, trust is defined as an interdependent and common endeavor psychological contract that contributes to unite leaders and subordinates.

Individual identification refers to an individual's deep understanding of himself/herself, the integration and coordination of his/her internal state and external environment, and the construction of personal identity (Gong, 2015). According to Jiao (2007), individual identification includes the recognition and trust of individual himself/herself as well as the relationship between the individual and others. Yin (2015) argues that individual identification refers to the cognition of individual characteristics and status. This paper adopts the definition of individual identification in Yin (2015). Essentially, individual identification is a degree of comprehension and acceptance to individual identity and role. In the process of individual identification, people introspect value conflict and crisis of confidence.

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