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The impact of leadership on small business innovativeness☆

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ABSTRACT

Innovation is a fundamental requisite for small firms to achieve long-term viability. While relevant literature highlights the importance of leadership within small firms in order to establish and foster a climate conducive for innovation, evidence linking specific leadership attributes with innovation is lacking. This study examines the impact of the individual entrepreneur on fostering new product innovation within firms. An analysis of the responses collected from entrepreneurs indicates that leadership style, negotiation style and organizational efficacy each affect new product innovation. Specifically, we find evidence to support the idea that small business leaders who are inspirational, who negotiate competitively, and who lead efficacious organizations establish environments that are more likely to yield new product innovations.

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1. Introduction

A firm's success often depends on its ability to innovate. In fact, creativity and product innovation is a common goal of many organizations (Cooper, 1999) and is necessary for growth and survival (Schumpeter, 1942). The numerous practitioners as well as academic publications involved in a study of innovation illustrate the prominence of this area. The importance placed on innovation manifests in the common practice of research and development departments and even the incorporation of innovation in organization missions (Bart, 2004). While entrepreneurship research often focuses on innovation and creativity, little is known about how small business leaders create an environment that enhances innovation. The main objective of our study is to explore the role of leadership in fostering new product innovation within small businesses. Specifically, we aim to identify leader characteristics that are positively associated with small business innovation.

This study begins by describing the crucial role of new product innovation on firm survival and success. Next, we provide a review of established antecedents to new product innovation regardless of firm size and draw upon leadership theory to predict how small business leaders may influence innovation. Results and implications of our study are discussed subsequently.

1.1. Innovation and firm performance

Firms, particularly small firms, need to be innovative to survive (Cefis, 2005). In general, however, when firms experience initial success resulting from innovation, leaders turn their attention towards efficient production and selling of their products or services, potentially at the expense of ongoing innovation. This seemingly prudent decision may unintentionally cause firms to become one-hit wonders, effectively limiting their potential success over time (Mazzei, Flynn & Haynie, 2016). Cefis (2005) suggests firms benefit from an *innovation premium* that extends their life expectancy.

Some antecedents of innovation include marketing capabilities (Banterle, Cavaliere, Carraresi & Stranieri, 2011), information and communications technology (Parida & Örtqvist, 2015), availability of financial slack (Parida & Örtqvist, 2015), and participation in small business advisory programs (Sawang, Parker, & Hine, 2014). Matthews and Bucolo (2013) suggest that simply increasing organizational awareness of the benefits of innovative practices helps, along with adopting a holistic approach to design innovation throughout the organization. Vargas (2015) examines the impact of transformational and transactional leadership on the firm's level of innovation and concludes that a flexible leadership style both fosters innovation and best facilitates organizational learning.

Innovation strongly influences the successes and failures of small firms. The ability of small firms to innovate is central to their progress in terms of remaining competitive and achieving growth (Roper, 1997). However, given that small firms are more resource and capability constrained than larger firms, their ability to implement innovation initiatives is even more essential (Hewitt-Dundas, 2006).

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1.2. Impact of leader behavior on product innovation

The importance of innovation, as outlined in Section 1.1, has led to the search for and discovery of factors related to creativity and innovation. Within this literature, evidence suggests leader behavior may play an important role in fostering innovation at the individual, group, and organizational level. Innovation relies on individual and collective efforts to utilize knowledge, skills, and information in a manner that results in new and unique applications to develop products, services, processes, etc. The literature highlights three major themes of how this process transpires, namely the impact of individual characteristics, group characteristics and job characteristics. The dominant perspective regarding the link between job characteristics and innovation comes from literature related to job design of motivation (Hackman & Oldham, 1976). According to this stream of research, characteristics of job complexity will influence creativity by initiating positive psychological states. Specifically, Hackman and Oldham (1976) found that employees view their work as more meaningful when jobs involved a greater variety of tasks, allowed them to identify with job outcomes, provided them with autonomy, and were perceived to be valuable. Therefore, employees were more motivated, had higher levels of job satisfaction, were absent less frequently, and accomplished higher levels of performance.

In addition to job characteristics, certain individual characteristics have been found to foster innovation. Much of the research linking individual characteristics with innovation focuses on employee motivation. One factor that motivates creativity is the amount of personal accountability individuals have for their work (Anderson & West, 1998). An orientation towards individual accountability creates an environment whereby individuals are more concerned with maximizing performance, resulting in better implementation of improved processes. Similarly, research shows employees accomplish greater creative outcomes when they are personally concerned about problems and take greater ownership of jobs (Parker, Chmiel, & Wall, 1997). Similarly, when subordinates feel responsible, they achieve more innovative success. Consistent with motivation theories, Zhang and Bartol (2010) found intrinsic motivation was more likely to spur creativity than extrinsic motivation. On a related note, they found that employee engagement was also correlated with creativity at work.

In addition to the individual factors, scholars have determined group-level characteristics that also enhance innovation. One such factor that enhances a group's capacity to innovate is diversity (Dwyer, Richard, & Chadwick, 2003; Kaur, 2014). While demographic diversity is one factor, others have found that diversity in knowledge, skills, and functional backgrounds enables groups to increase innovative processes (Carbonell & Rodriguez, 2006). However, collective knowledge maximizes the group's creativity only when the team members' knowledge is utilized for solving problems (Sung & Choi, 2012). Similarly, the effective utilization of knowledge existing within a group requires transactive memory or an understanding by group members of who knows what (Gino, Argote, Miron-Spektor, & Todorova, 2010). Additionally, the knowledge residing within the members of the group must be shared with other members to realize the creative advantage of working collectively (Hu, Horng & Sun, 2009). The dynamic nature of group undertakings also makes it necessary for group processes to be integrated and for group members to trust each other to realize their creative potential (West, 2002).

2. Theoretical framework and hypotheses

Many of the antecedents to innovation reviewed in Section 1 are intuitive aspects influenced by leader behaviors and styles. Following this proposition, Anderson and King (1993) found a participative leadership approach, whereby followers are consulted to provide inputs in the decision-making process, was positively associated with innovation. Another study found that when leaders encouraged followers to take

responsibility, the latter perceived they had a voice and felt secure in sharing their opinions, which ultimately led to innovation success (Anderson & West, 1998).

The impact of a leader on new product innovation also depends upon how the leader communicates with his/her followers. For example, Mayfield and Mayfield (2004) found the use of motivational language by leaders was positively related with employee innovation. Specifically, they found innovation was realized when the leader's communication provided both a clear direction of goals and responsibilities while being empathetic towards subordinates' needs and a mechanism to help subordinates appreciate group norms (Mayfield & Mayfield, 2004). Communication between leaders and followers is essential to provide effective feedback and recognition to reinforce employee behavior and to enhance creativity (King, 1990).

2.1. Inspirational leadership and innovation

The findings in Section 2 rely primarily upon motivation theories to predict how leaders may facilitate innovation. However, our predictions are based on the notions of affect theory (Tomkins, 1984), which proposes that behaviors are strongly influenced by felt and expressed emotions. Considerable amounts of research support the idea that individuals' emotions are related to their work performance (Lofy, 1998). Additionally, research suggests positive emotions stimulate innovation by producing biological responses that encourage creativity (Isen, 1999). Specifically, as highlighted in Isen (1999), positive affect enhances an individual's cognitive capacity to process information, broadens their focus, and increases the flexibility of cognitive elements used for problem solving. Additionally, the experience of positive emotions aid individuals in challenging the status quo and thinking beyond the scripted patterns that encompass common employee behaviors (Fredrickson, 2001). In an entrepreneurial setting, Baron and Tang (2009) found that the entrepreneur's positive affect was significantly related to creativity, which, in turn, was related to innovation at the firm level.

This impact of positive emotions is based on the premise that environmental factors can, and do, affect individual emotional states and moods. One such factor is a leader's use of emotions to inculcate positive emotions in subordinates. The connection between the leader's and subordinates' emotions may be explained by emotional contagion (Barsade, 2002) whereby the emotions expressed by one party are mimicked and then experienced by another party. While the mechanisms of emotional contagion have not been applied to small business leaders' innovation achievements, there is considerable evidence for such a prediction. A growing stream of leadership research has highlighted the importance of utilizing emotions to motivate individuals and groups effectively (Bass & Avolio, 1994). For instance, transformational leaders are more responsive to follower's needs and are able to use emotions to inspire followers to pursue organizational objectives (Ashkanasy & Tse, 2000; Berson, Shamir, Avolio & Popper, 2001). The impact of inspirational styles of leadership, including transformational and charismatic leadership, provide a foundation to predict that inspirational leadership in small business settings would lead to new product innovation.

Hypothesis 1. There will be a positive relationship between inspirational leadership and new product innovation within small businesses.

2.2. Leader communication and innovation

One common theme in innovation literature purports that leaders need to be good communicators in order to enhance group effectiveness. As such, Mayfield and Mayfield (2004) determined that to improve group innovativeness, a leader must communicate by providing straightforward directions and enabling subordinates to understand cultural norms and

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