Transformational Leadership is the Key to Innovation in Organizations

Innovations and innovators have always attracted our attention. Companies like Southwest Airlines, Apple, Google, Intel, and 3M which have been at the forefront of innovation have been studied in an attempt to discover the secret of their sustained innovative practices. Each of these studies has revealed a mix of personal, contextual and organizational factors responsible for innovation[1]. In this essay I explore the role of people in delivering innovation and specifically how transformational leaders can unleash this capability in their organizations.

There are two significant trends shaping today's businesses. First, in a global economy, companies can no longer rely merely on access to natural resources, technology, or capital. As each of these bases of competitive advantage loses relevance, what differentiates an excellent firm from a merely efficient firm is the quality of its workforce and their ability to get things done in a superlative manner[2]. The second trend is related to the first, in that the focus of competition has shifted from the product market to the labor market. In an effort to attract the best employees, companies are bending over backwards to signal their offerings to employees in terms of careful selection procedures, exciting roles, competitive salaries, attractive benefits, and a good working environment. Both these trends underscore the recognition that a superior workforce which is consistently innovating and giving off its best to the organization is a superior source of competitive advantage. One technique to assess the extent to which the workforce is giving off its best to an organization is to measure employees' work engagement.

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[1] Kanter, R. M. (1982). The middle manager as innovator. *Harvard Business Review, July–August*, 95-105.
[2] Pfeffer, J. (1995). Producing sustainable competitive advantage through the effective management of people. *Academy of Management Executive, 9(1):* 55-72.

Work engagement is about "being charged with energy" and being "fully dedicated to one's work.[3]" and is the opposite of burnout (a feeling of fatigue, and a loss of idealism and passion for the job[4]). To understand the nature and form of engagement, imagine an individual totally absorbed in some non-leisure activity and totally unaware of time passing by. Most of us achieve this state when we are engaged in our hobbies or any activity which is inherently challenging and enjoyable such as solving a puzzle. In fact, when we visualize most creative professionals such as artists and scientists, we visualize an individual completely immersed in his or her activity and unmindful of the world around. It is easy for us to imagine an artist completely engrossed in creating a work of art, a sportsperson trying to perfect the technique, or a scientist totally consumed by the quest for the answer to a particularly complicated problem. Unfortunately, since most of us are involved in rather mundane jobs such as selling soaps (or credit cards!), managing factories, processing forms, or simply supervising others, it is unlikely that our work itself will be able to generate enough engagement in us to stimulate and harness our latent creativity. What is it that the organization can provide that can somehow engage the employees?

Employees can be engaged only if three conditions are satisfied, viz. (a) employees consider their work meaningful; (b) employees can freely express themselves; and (c) employees feel they have the personal resources to engage.[5] Thus organizations who desire to have an engaged workforce must endeavor to create conditions under which the above three conditions are maximized.

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[3] Hallberg, U. E., & Schaufeli, W. B. (2006). Same same but different? Can work engagement be discriminated from job involvement and organizational commitment? *European Psychologist, 11(2)*: 119-127.

[4] Maslach, C., Schaufeli, W. B., & Leiter, M. P. (2001). Job burnout. *Annual Review of Psychology, 52,* 397-422.

[5] Kahn, W. A. (1990). Psychological conditions of personal engagement and disengagement at work. *Academy of Management Journal, 33,* 692-724.

One factor, which the organization striving for employee engagement cannot afford to ignore, is leadership. A charismatic and inspirational leader can transform the employees' reality completely. Transformational leaders inspire followers with a vision that addresses their higher needs and engage followers in the attainment of that vision. Transformational leaders become role models for their followers and make their followers to go beyond their self-interests for the benefit of a larger collective. Thereby followers cease to driven by material rewards and instead aspire for higher levels of motivation (such as self-actualization[6]).

Researchers across cultures have found that transformational/visionary leaders display four common types of behaviors- charisma, inspirational motivation, intellectual stimulation, and individualized consideration.[7] Each of these four behaviors and their effects on followers are explained in the paragraphs that follow.

First, transformational leaders are highly charismatic and creative individuals who challenge the status quo[8]. In addition to being innovative iconoclasts, they can be trusted to do the right thing. Doing the right thing in the face of adversity requires courage and visionary leaders possess the required strength of character. This attracts followers towards them and makes followers emulate them. Thus over a period of time, followers also become more innovative.

A good example of an unconventional leader stimulating creativity in his followers is Donald Winkler, the CEO of Ford Motor Credit Company. Winkler, who has dyslexia, is a

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[6] Maslow, A. H. (1943). A theory of human motivation. *Psychological Review, 50,* 370-396.

[7] These four factors of transformational leadership were derived by Bernard M. Bass and his colleagues by asking a number of people to think about leaders who had inspired them and then asking them to enumerate their behaviors. The factors were later validated in numerous studies across the globe. For a fuller discussion on the four factors of transformational leadership, see: Bass, B. M. (1985). *Leadership and performance beyond expectations*. New York: Free Press.

[8] Conger, J. A. & Kanungo, R. N. (1987). Toward a behavioral theory of charismatic leadership in organizational settings. *Academy of Management Review, 12*, 637-647. And Bennis, W. (1998). *Managing people is like herding cats*. London: Kogan Page.

highly unconventional person, often known to put on a red latex nose in office so that he can catch himself when he takes himself too seriously. Through his innovative behavior, he has institutionalized a new vocabulary in his organization such as not using the word "but" (those who do have to pay a fine!) or suffixing all negative statements with "up until now." It is this radical thinking which then permeated through the rest of the organization and helped transform the company into an industry leader.[9]

Second, visionary leaders are able to provide an inspirational vision, which motivates followers to look beyond the mundane activities of their jobs. An inspiring vision not only presents a glorious future but also shows how the individual can work towards it in his/her current job. It is this connection between one's current work and a desirable future, which infuses meaning into the employees' work. Once employees see their work in a larger and more meaningful context, there are completely engaged in their work and this engagement unleashes immense creativity.

One of the best examples of visionary/inspirational leadership, which can powerfully engage the employees, was provided by Naoroji P. Godrej in the design, manufacture, and marketing of the Godrej typewriter. Naoroji's genuineness, simplicity, and concern for his people made him an extremely loved and respected leader. Immediately after Indian independence, there were no indigenous manufacturers of typewriters and British companies were making a huge profit on the typewriters that they sold in India. Naoroji called together some of his most trusted engineers and workers and challenged them with the dream of creating a completely Indian typewriter as an important step towards the vision of a technological self-

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[9] Hammonds, K. H. (2000). How do we break out of the box we're stuck in? *Fast Company, 40*, 260–268.

reliant India.[10] During the period from 1953 to 1983 as the 'all Indian' Godrej Typewriter was developed and perfected, what engaged the Godrej employees was not the pursuit of mere market share or profits, but the conviction that they were working towards the vision of a technologically self-reliant India. Similarly, the founders of Infosys technologies, during the initial years of their growth, were able to connect the work of an average "Infoscion" with the lofty goal of India's technological supremacy and self-respect.

Third, visionary leaders encourage their followers to think independently and to look for novel solutions to existing problems. This crucial aspect of independent thinking is what distinguishes authentic leadership from mere indoctrination. Within Asian traditions, there are numerous examples of leaders creating situations wherein followers are made to realize the truth for themselves. For example, in the Chândhogya Upanishad, both Indra and Virochana approach the teacher Prajapati to learn the nature of the self. Prajapati puts the two of them through long years of penance and suggests exercises through which they are forced to question their assumptions about the nature of the self. Virochana gives up after 32 years and is left with a superficial understanding of the self, while Indra persists in his questioning for 101 years and finally realizes the subtle truth for himself. Similarly, in organizations, managers can provide challenging assignments in which individuals are forced to think for themselves and develop their own judgment about the appropriate course of action. Bob Thomas calls these developmental experiences "crucibles" since the lessons that individuals learn from these incidents can transform ordinary individuals into great leaders.[11]

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[10] More details about Mr. Naoroji Godrej and his leadership can be found in two books: (a) Karanjia, B. K. (2000). *Final victory: The life-and death-of Naval Pirojsha Godrej*. New Delhi: Viking. (b) Karanjia, B. K. (1997). *Godrej: A hundred years 1897-1997*. New Delhi: Viking.
[11] Tomas, R. J. (2008). *Crucibles of leadership: How to learn from experience to become a great leader*. Boston: Harvard Business School Press.

Finally, visionary leaders recognize their followers as complete human beings and act as mentors to their followers. The role of a mentor or coach is absolutely essential when one is attempting to engage in a novel or innovative task which is fraught with uncertainties. For a transformational leader, being individually considerate includes looking beyond the individual as just an employee and recognizing the human being. At one level this involves understanding that individual performance is dependent on a host of contextual factors beyond just individual ability, but at a deeper level it is about having respect for the basic humanness of one's employees. When organizations demonstrate their commitment to people, the employees often reciprocate by contributing their ideas and efforts wholeheartedly to the organization. Organizations which provide employment security, pay higher than market wages, and invest heavily in employee development are often rewarded with superior performance.[12] Walmart's Sam's Club and Costco both warehouse retailers are drastically different in their people management practices. Not only does Costo pay higher wages to its people, it also pays substantially more for their employees' health plans and retirement plans. In return for this generosity and concern for people, Costco has a much more productive workforce and less than half the attrition of Sam's club.[13]

Putting all the above reasoning together, we find numerous paths from transformational leadership to innovation via employee engagement. The leadership behavior of inspirational motivation enhances meaningfulness- followers perceive their work in a context which is personally important to them. Intellectual stimulation by the leader enhances follower freedom and self-efficacy by allowing followers to question assumptions and work out their own solutions to problems. These three psychological states of meaningfulness, freedom, and self-

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[12] Pfeffer, J. (1995). Producing sustainable competitive advantage through the effective management of people. *Academy of Management Executive, 9(1):* 55-72.
[13] Cascio, W. F. (2007). Decency means more than "Always low prices": A comparison of Costco and Wal-Mart's Sam's Club. *Academy of Management Perspectives, Aug*, 26-31.

efficacy lead to engagement which in turn leads to innovation. Leader charisma in the form of unconventional behavior provides a worthy role model for followers to emulate and thereby directly enhances innovation by followers. Finally, individualized consideration by leaders triggers the norm of reciprocity in followers and they provide innovative solutions to solve organizational problems.

The relationship between transformational leadership and follower creativity has been validated in a study of 290 employees and their supervisors from 46 Korean companies, which showed that transformational leadership behavior of the supervisor led to higher creativity of employees. Through the behaviors of Transformational leaders enhanced followers' intrinsic motivation which in turn led to greater creativity of followers.[14]

As a leader, you have a choice, either to stimulate your followers only through material rewards and punishments or in addition to material rewards, to inspire them to work for a cause beyond themselves. Transactional leaders who rely only on material rewards and punishments are at most able to create an efficient team, which can match the competition. However, to truly excel and be a role model in their industry, companies must harness the latent creativity in their employees. Transformational leaders-, who exhibit creative behavior, inspire followers with a compelling vision, stimulate followers to challenge assumptions and think for themselves, and who respect their followers- are able to engage their teams and unleash their full potential.[15] In

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[14] Shin, S. J., & Zhao, J. (2003). Transformational leadership, conservation, and creativity: Evidence from Korea. *Academy of Management Journal, 46(6)*: 703-714.

[15] Studies have shown that transformational leadership has a significant impact on valued outcomes such as subordinate satisfaction, perceived justice, self-efficacy, group potency, organizational citizenship behavior, follower performance, collective performance, performance quality, performance quantity, and work unit effectiveness. For example: (a) Hater, J. J., & Bass, B. M. (1988). Superiors' evaluations and subordinates' perceptions of transformational and transactional leadership. *Journal of Applied Psychology, 73*, 695-702. (b) Ross, S.M., & Offermann, L.R. (1997). Transformational leaders: Measurement of personality attributes and work group performance. *Personality and Social Psychology Bulletin, 23*, 1078-1086. (c) Kirkpatrick, S. A., & Locke, E. A. (1996). Direct and indirect effects of three core charismatic leadership components on performance and attitudes.

order to do this, organizations will have to identify and nurture transformational leadership at all

levels in their hierarchy and implement processes that support such leadership.

Figure 1: Relationship between transformational leadership, employee engagement, and innovation.
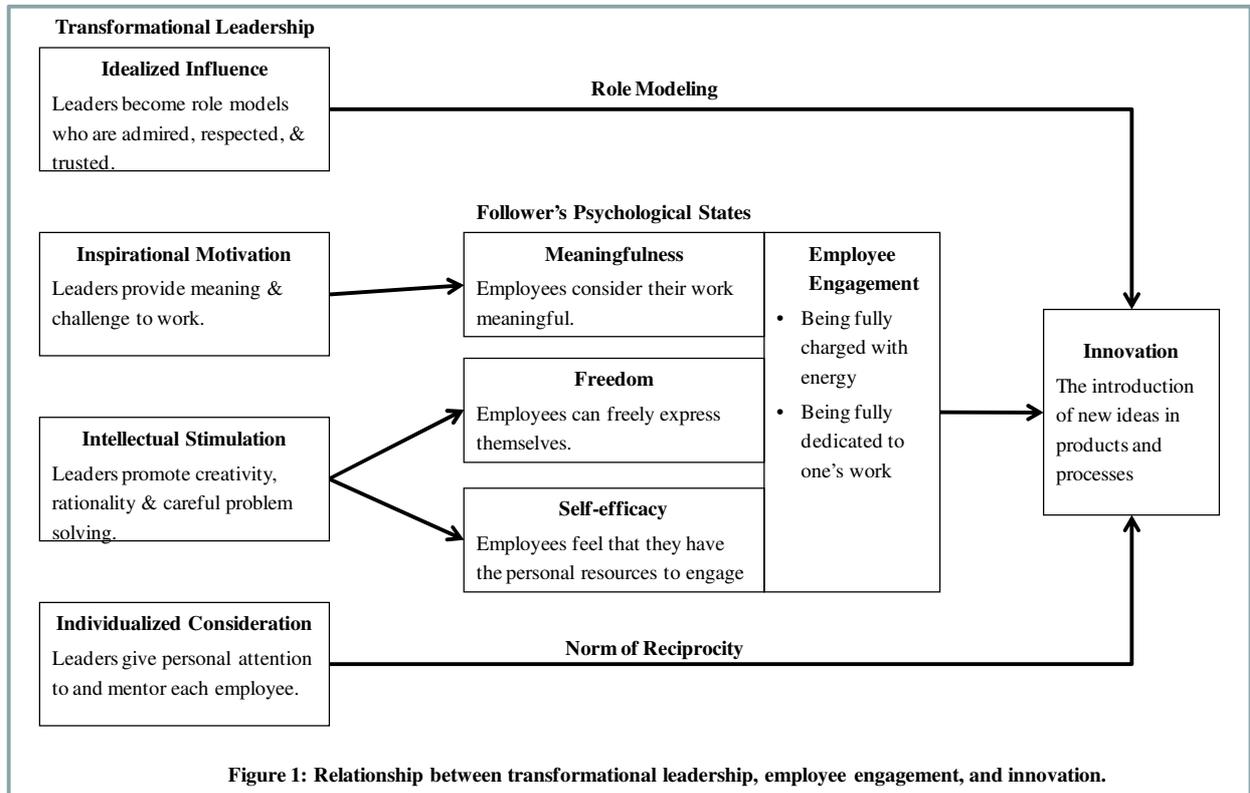
Journal of Applied Psychology, 81, 36-51. (d) Sosik, J. J., Avolio, B. J., & Kahai, S. S. (1997). Effects of leadership style and anonymity on group potency and effectiveness in a group decision support system environment. *Journal of Applied Psychology, 82*, 89-103. (e) Podsakoff, P. M., MacKinzie, S. B., Moorman, R. H., & Fetter, R. (1990). Trust in leader, satisfaction, and organizational citizenship behaviors. *Leadership Quarterly, 1*, 107-142. (f) Lowe, K. B., Kroeck, K. G., & Sivasubramaniam, N. (1996). Effectiveness correlates of transformational and transactional leadership: A meta-analytic review of the MLQ literature. *Leadership Quarterly, 7*, 385-425.