

# Leadership and organizational learning's role on innovation and performance: Lessons from Spain

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## Abstract

Leadership style has been traditionally emphasized as one of the most important individual influences on firm innovation. Scholars are now paying growing attention to the possibility that the collective capability of organizational learning plays a key role in determining innovation. We propose that leadership style, an individual feature, and organizational learning, a collective process, simultaneously and positively affect firm innovation. A structural equation model and data from 408 large firms in four sectors supported our hypotheses. Organizational learning had a stronger direct influence on innovation than CEO transformational leadership for our sample; however, leadership had a strong, significant influence on organizational learning, indirectly affecting firm innovation. Additionally, innovation positively and significantly influenced performance. Organizational learning also positively affected performance, but interestingly mainly through innovation.

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## 1. Introduction

Market orientation and subsequent firm innovation are widely recognized to be essential for the survival and growth of organizations (Bello, Lohtia, & Sangtani, 2004; Damanpour & Gopalakrishnan, 2001; Hurley & Hult, 1998). Porter (1990) suggested that by the late twentieth century, most industrial economies had moved to an “innovation-driven” stage, during which firms competed on how to rapidly and profitably innovate. In this context, it is especially important to gain a better understanding of factors influencing the successful development of firm innovations.

Different definitions of innovation have been proposed (e.g., Knight, 1967; Zaltman, Duncan, & Holbek, 1973). We accepted for our work the definition of innovation stated by the Product Development and Management Association (PDMA, 2004): “A new idea, method, or device. The act of creating a new product or process. The act includes invention

as well as the work required to bring an idea or concept into final form”.

Although firm innovation is widely prescribed as a means to improve organizational performance, many firms do not or cannot properly develop it. Researchers have urged attention to what makes it possible for firms to develop innovation, looking for answers “beyond semiautomatic stimulus-response processes” (Zollo & Winter, 2002, p. 341). Many authors have focused their attention on analyzing whether specific managerial characteristics influence the generation of innovation in organizations, while others have focused on analysis of organizational factors. We want to highlight the simultaneous influence of both kinds of factors.

Leadership style has been emphasized as one of the most important *individual* influences on firm innovation, because leaders can directly decide to introduce new ideas into an organization, set specific goals, and encourage innovation initiatives from subordinates (Harbone & Johne, 2003; McDonough, 2000; Sethi, 2000). Specifically, several writers have linked “transformational leadership” to innovation (e.g. Howell & Avolio, 1993).

Transformational leaders concentrate their efforts on longer-term goals; value and emphasize developing a vision and

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inspiring followers to pursue the vision; change or align systems to accommodate their vision rather than work within existing systems; and coach followers to take on greater responsibility for both their own and others' development (Howell & Avolio, 1993).

Attention to the *organizational* influences on innovation is also important. Although several such influences have been analyzed, scholars are paying growing attention to the possibility that the collective capability of organizational learning plays a key role in determining innovation (Senge, 1990; Senge, Roberts, Ross, Smith, & Kleiner, 1994; Tushman & Nadler, 1986). Organizational learning has been defined as a collective capability based on experiential and cognitive processes and involving knowledge acquisition, knowledge sharing, and knowledge utilization (e.g., DiBella, Nevis, & Gould, 1996; Zollo & Winter, 2002).

We propose that both collective (organizational learning) and individual (transformational leadership) factors influence firms to develop and implement organizational innovation. Many previous studies, although contributing significantly to the understanding of innovation, have not addressed how the efficacy of innovation may vary with the simultaneous influence of different organizational factors and have not analyzed both direct and indirect influences (Van de Ven, 1993). Identifying and better understanding those influences will complement the general prescription that firms should innovate.

Additionally, the ultimate purpose of firm innovation is new knowledge and new applications, especially those connected to organizational improvements, and many researchers have claimed a positive relationship between organizational learning and performance. We sought to reinforce this work by contributing to the analysis of the influence of innovation on performance. Further, we sought to show how the influence of organizational learning on performance is strengthened by the generation of innovation.

In this article, our focus is primarily on research questions that concern firm innovation. We first examine the nature and strength of transformational leadership and organizational learning as antecedents of firm innovation. We then investigate

whether firm innovation, organizational learning and transformational leadership affect financial performance. And finally, using these research findings, we develop a model of direct and indirect influences to guide future research in this arena and offer managerial implications.

## 2. Framework and hypotheses

Capabilities require that multiple characteristics be already embedded in a firm (Grant, 1991). Like any other capability, organizational innovation depends on the presence of capabilities by which firms synthesize and acquire knowledge resources and generate new applications from those resources (e.g., Calantone, Cavusgil, & Zhao, 2002; Celuch, Kasouf, & Peruvemba, 2002). All these antecedents have to be analyzed globally and integrated to achieve systemic thinking.

In the following sections, we present a model consisting of five hypotheses about how transformational leadership and organizational learning simultaneously condition firm innovation. We also propose an indirect relationship between transformational leadership and innovation through organizational learning. We recognize that other variables might be considered in such a model; however, it was necessary to limit our model to be able to offer empirical evidence for our arguments, and we chose these two factors to represent a focus on individual and on collective explanations for innovation activity, respectively. Our aim here was simultaneous consideration of these relevant antecedents of firm innovation. Additionally, we developed two hypotheses about innovation's effect on performance. Fig. 1 illustrates the proposed model.

### 2.1. The influence of organizational learning on firm innovation

Many works in the growing literature on organizational learning have noted a positive relationship between organizational learning and firm innovation (e.g., Calantone et al., 2002; Tushman & Nadler, 1986). Organizational learning supports creativity (e.g., Sánchez & Mahoney, 1996), inspires new knowledge and ideas (e.g., Damanpour, 1991; Dishman &

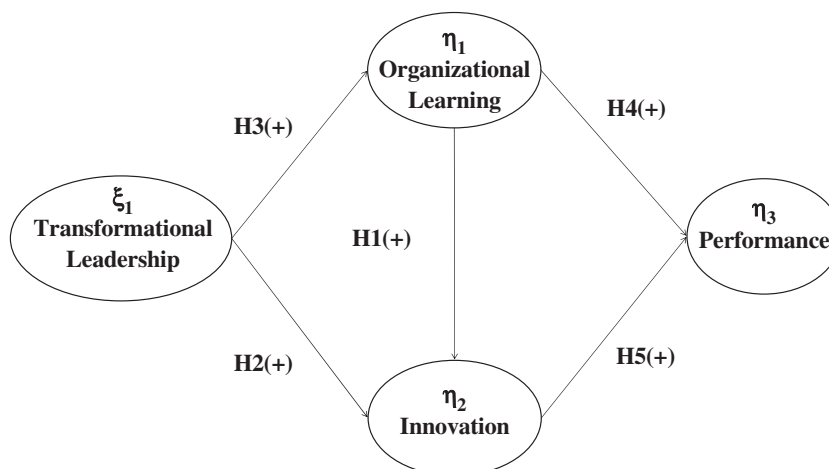


Fig. 1. Hypothesized model.

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