

# Leadership, Climate and Innovation: A Process Model of Business Performance

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## Extended Abstract

A marketplace that constantly demands new products and services makes innovation a necessity for all organisations. Manufacturers spend huge amounts of money on research and development in a bid to be the first to launch a new product, while service-based organisations constantly work to increase their market share by offering new services and value-added products.

While the demand for maximising innovation in organisations is obvious, fulfilling that demand requires the identification of leadership and environmental factors that support innovation, as well as the behaviours that create such an environment.

An important aspect of innovation in organisations is that it results from the behaviour of individuals working together in work teams. Agrell and Gustafson (1996) assert that while individuals may have the requisite creativity to be innovative, innovation requires facilitation by the work group; conversely, work group behaviours can also act to prevent individual creativity from leading to innovation. Innovation therefore requires a conducive workgroup climate.

West's (1990) model of climate for innovation is comprised of four factors:

*Vision and shared objectives*: a clear vision facilitates innovation by providing an index against which new ideas can be assessed. The more team members share a clear understanding of their roles and objectives, the more committed they are to implementing an innovation.

*Participative safety*: in interpersonally non-threatening environment motivates team members to share information and participate in the decision-making process.

*Task orientation and a climate for excellence*: focussing on work tasks and outcomes allows for constructive controversy in decision making and performance monitoring, both of which help to ensure high quality of innovation by careful examination of proposed ideas.

*Group norms in support for innovation*: innovation is facilitated by an environment in which team members can articulate their ideas for the group's consideration in making decisions.

Agrell and Gustafson (1996) proposed that the climate for innovation is influenced by leadership and organisational climate. Leaders and the organisation as a whole can either facilitate or inhibit innovation in workgroups through processes and aspects of the environment that allow innovation to be practiced and translated into the organisation's outputs. Leaders in an organisation can drive an innovation-rich environment by being enterprising, building a quality-oriented environment and managing the changes that accompany innovation.

The current paper presents two studies that explore how leadership and organisational climate drive the climate for innovation, one conducted on an Australian aerospace company and the other on an Australian banking institution. Path analyses were conducted to examine the relationships between organisational climate (Hart, Griffin, Wearing and Cooper, 1996), transformational leadership (Ostrogna and Hart, 2002) and climate for innovation (West, 1990). Two alternative models were explored. The first is a model in which leadership and organisational climate make a direct contribution to climate for innovation, and the second in which organisational climate mediates the relationship between leadership and innovation climate.

The second aim of the current paper is to examine the effect of the climate for innovation on organisational outcomes such as focus on quality outputs, customer focus and sales performance. It was expected that climate for innovation would contribute to customer focus, and that that climate for innovation would have an influence on sales performance over and above that of customer focus.

## **Method**

### *Participants*

Data were obtained from two related studies. In the first study, data were provided by 1,391 employees of an aerospace company. The employees' ages ranged from 19 to 66 years ( $M = 39.7$ ,  $SD = 9.60$ ), and their lengths of service ranged from less than 1 year to 28 years ( $M = 4.2$ ,  $SD = 3.72$ ). There were 201 (15%) female and 1190 (86%) male employees in the sample.

In the second study, data were provided by 571 employees who worked for a financial services institution. The employees' ages ranged from 20 to 78 years ( $M = 36.8$ ,  $SD = 9.12$ ), and their lengths of service ranged from less than 1 year to more than 20 years ( $M = 4.1$ ,  $SD = 2.78$ ). There were 297 (52%) male and 274 (48%) female employees in the sample.

### *Measures*

**Organisational Climate.** Employees' perceptions about seven different aspects of their work environment (e.g., appraisal and recognition, excessive work demands, goal congruence, participative decision-making, professional growth, staff interaction, supportive leadership, and role clarity) were assessed with the Organisational Climate Questionnaire (Hart, Conn, Carter & Wearing, 1993; Hart, Griffin, Wearing & Cooper, 1996) (coefficients alpha ranged from .82 to .92).

**Climate for Innovation.** Innovation was assessed with a four-item scale based upon West's (1990) model of innovation climate (coefficient alpha = .87). The innovation scale comprises of the following items:

- 1) My workgroup is encouraged to try new ideas.
- 2) My workgroup actively encourages innovations.

- 3) My workgroup always pushes for the implementation of new ideas.
- 4) My workgroup is allowed a lot of flexibility in the way that it goes about its work.

Quality Outputs. Focus on quality outputs was measured using a two-item scale (coefficient alpha = .80), comprising of the following items:

- 1) This company is committed to being a world leader in every aspect of its business.
- 2) This company always demonstrates its commitment to continuous improvement.

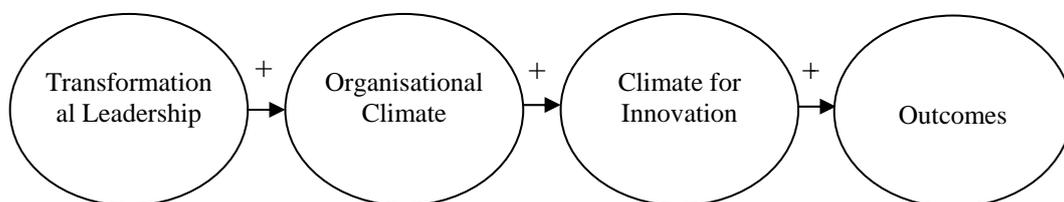
Customer Focus. A three-item scale was used in the study of the aerospace company to measure customer focus (coefficient alpha = .79). The items in this scale are:

- 1) My workgroup always delivers results that meet or exceed customer needs.
- 2) My workgroup has the knowledge and skills to deliver good customer service.
- 3) My workgroup has a good understanding of what customers expect of it.

Sales Performance. Sales performance data was obtained from the banking institution as a more objective form of performance data than self-report measures. The sales performance measure is a ratio of actual sales performance to sales targets, assessed over a nine-month period.

## Results

In both studies, structural equation modelling and regression analyses revealed the influence of transformational leadership on organisational climate, which in turn demonstrated a positive effect on climate for innovation. The climate for innovation was also found to have a positive effect on the outcome variables of customer focus, quality outputs and sales performance. The heuristic model presented below in Figure 1 forms the basis of the analyses conducted.



**Figure 1.** Model showing the relationships between transformational leadership, organisational climate, and climate for innovation in a private sector setting.

In particular, empowerment of team members, ownership of group goals, feedback and appraisal and professional interaction were found to significantly contribute to a climate for innovation. Climate for innovation was found in both studies to contribute to customer focus, while innovation was found to have a positive effect on sales performance over and above that of customer focus.

## Discussion

The results demonstrate that transformational leadership and organisational climate facilitate the climate of innovation. These results show that rather than attempting to create a climate for innovation directly through leadership, leaders instead need to focus on maximising the alignment of the employees' and organisation's goals, and involving employees in decisions of how they go about their work. The findings of the current paper also reveal a direct effect of climate for innovation on sales performance, affirming the value of innovation to organisational outputs.

## References

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