

Towards Understanding the Direct and Indirect Effects of CEOs' Transformational Leadership on Firm Innovation

Original Publication by Dongil (Don) Jung, Anne Wu, and Chee W. Chow
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Synopsis by **Laura Bottorff**, Claremont McKenna College '11

In today's world, fast-paced, global markets push firms to produce innovative products and services. The pressures to innovate are especially high on technology firms where new ideas rapidly overtake the old. In order to stay competitive, firms must create new technologies. Factors that effectively increase innovation are therefore highly important. Jung, Wu, and Chow contend that a CEO's use of transformational leadership can increase firm innovation.

Transformational leadership uses many adaptive leadership behaviors. Transformational leaders not only project vision and strong personal values, but also work to meet their followers' needs and improve their follower's overall abilities. Past research has indicated that this type of leadership can foster innovation.

However, Jung et al. note that many of the studies affirming the positive relationship between transformational leadership and innovation are lacking in scope and objective measurement. Rather than studying innovation at the level of individuals or small subunits, the authors explore the possibilities of transformational leadership used by top executives. While small pockets of innovative activity in an organization can possibly affect organization-level outcomes, CEO leadership is more likely to be able to have this overall effect. Jung et al. also use quantifiable survey data from multiple informants to measure levels of transformational leadership, innovation, and possible moderating factors within the organization.

Jung et al. surveyed approximately 10 managers each from 50 large Taiwanese electronics and telecommunications companies. The group of managers at each company answered three different surveys. Managers rated their CEO on various qualities relating to transformational leadership as well as on the company's level of identified potential moderating factors of innovation including environmental uncertainty, degree of competition, "climate for innovation" at the company, employee empowerment, centralization, and formalization. Outside analysis of financial statements, patent holdings, and several other indicators of innovation provided further validation of the internal surveys at each company.

Transformational leadership was found to have a high positive impact on overall company innovation. Every tested moderating factor besides employee empowerment also had a positive impact on innovation levels. Employee empowerment not only exhibited no positive correlation, but actually had a significant negative impact on innovation. The authors consider several reasons why this unexpected result may have occurred. First, it is possible that the negative effect is present because of the value put on

strong, paternalistic leaders in high power distance cultures like the culture in Taiwan. In this situation, followers could feel uncomfortable with transformational leadership practices, making them ineffective. It is also possible that this indicates a need for a careful balance between structure and control and delegation and freedom if high levels of innovation are to be achieved, particularly in the high-tech sector. Similarly, very high levels of empowerment could negatively effect the ability of executives to lead significant company changes. This particular piece of the results will need further study to clarify the reasons for its negative effect and its subsequent impact on different organizations' ability to change and innovate.

Jung et al. conclude that CEOs' style of leadership can have a powerful effect on a company's innovative success. Executives can affect the future potential of their companies by employing stronger visionary, value, and employee development principles in their leadership. Beyond this, it may be possible for executive managers to change the organizational context around them and experience even greater effects. Changes to studied moderating effects could increase innovation, especially when combined with a strong transformational leadership approach. This practice could help leaders achieve even larger-scale change in their company's innovative capabilities.