THE IMPACT OF TRANSFORMATIONAL LEADERSHIP STYLE ON PRODUCT INNOVATION THROUGH THE MEDIATING ROLE OF INNOVATION CULTURE

Erina Sudaryati *

Universitas Airlangga, Gubeng, Kota SBY, Jawa Timur 60115, Indonesia

Selly Kurniawati

Universitas Airlangga, Gubeng, Kota SBY, Jawa Timur 60115, Indonesia

Abstract

Purpose: This study examined the impact of transformational leadership style on product innovation through the mediating role of innovation culture.

Design/methodology/approach: This study is relied on primary data from Surabaya Industrial Estate Rungku/SIER (manufacturing company). The questionnaire contains questions regarding transformational leadership style innovation and innovation culture.

Findings: The study shows the existence the effect of transformational leadership style on product innovation with or without mediating role of innovation culture.

Originality: The currents study contributes to how leadership style give impact on product innovation

Keywords: Transformational leadership style, Product Innovation, Culture of Innovation

Introduction

Globalization in the economic field provides opportunities as well as challenges for companies in a country. The opportunity is to expand market share that does not yet exist, while the challenge that must be faced is having to accept the arrival of competitors from around the world. Indonesia as one of the parts of the Southeast Asia region has the same opportunities and challenges to face the free market, the ASEAN Economic Community.

MEA encourages companies to prepare strategies with an increasingly competitive market and business environment. In addition to preparing strategies, companies are also required to meet the needs of stakeholders in the company to ensure that the company can survive. The strategy adopted by the company is expected to be able to develop its company and achieve competitive advantage. One thing that companies can do to achieve competitive advantage is to innovate.

Product innovation can be a benchmark for the functional progress of a product in a company and can bring more advanced products compared to competing products. Song and Parry (1997, p.

* Corresponding Author at: Universitas Airlangga, Gubeng, Kota SBY, Jawa Timur 60115, Indonesia
E-mail address: erina.sudaryati@feb.unair.ac.id
Received 29 June 2021; Accepted 12 March 2022
64) explain that the competitive advantage of a product is one of the determining factors of the success of a new product (so that an innovation product must have an advantage compared to other similar products). This is also in line with Cooper's opinion (2000, p. 38) that the excellence of new products is very important in the highly competitive global market circle. These advantages cannot be separated from the development of innovation products that are produced so that they will have an advantage in the market which will subsequently win the competition.

Contingency theory is the theory of leader suitability which means adjusting the leader to the right conditions. The theory put forward by Friedler (1964) states that the performance of leaders is determined by their understanding of the situation in which they lead. Contingency problems in the company if a situation that is still covered by uncertainty about the possibility of obtaining profit or loss. Uncertainty of profit or loss obtained due to intense competition between companies that require management to find solutions. One of the things that can be done by management to answer this problem is by making product innovations. However, to make product innovations that can answer existing contingency problems management must also pay attention to the leadership style that will be applied.

Toha (2007, p. 49) states that Leadership Style is the norm of behavior used by someone when the person is trying to influence the behavior of others as he sees it. According to Rivai (2004, p. 64) Leadership style can be defined as behavior and strategy as a result of a combination of philosophies, skills, traits, and attitudes that are often applied by a leader when he tries to influence the performance of his subordinates. Kreitner and Kinicki's (2000) leadership theory assumes that a manager's leadership style can be developed and improved systematically. Leadership is considered as one of the most important factors influencing innovation because leaders not only influence organizational characteristics such as culture, strategy, structure, reward systems, and resources of Mumford, Ligon, Gaddis, and Strange (2002), but also motivate creativity in their followers (Gumusluoglu & Ilsev, 2009).

Different leadership styles can also influence subordinates to create new products, in transactional leadership styles, it will be difficult to achieve changes in products or innovations because this leadership style only focuses on the relationship between leaders and subordinates without regard to efforts to make changes to subordinates and their organizations. Whereas in the transformational leadership style devotes attention to the things and development needs of each follower, the transformational leader changes the followers' awareness of the problems by helping them to view the old problems in new ways, and therefore in this leadership style the business achieving change and innovation will be easier. Based on empirical results, transformational leadership has a positive effect on product innovation and company performance (Matzler, Grabner-Kräuter, & Bidmon, 2008). Transformational leadership, as part of the behavior of strategic leaders, has a strong positive relationship with executives of its influence on product market innovation (Elenkov, Judge, & Wright, 2005). Visionary-transformational leadership influences the adoption of innovation, including product innovation (Elenkov & Manev, 2009). In addition, previous research has revealed that transformational leadership is significantly and positively related to product innovation performance (Chen, Chiang, & Storey, 2012).
Based on other empirical results, transformational leadership style has insignificant results compared to the transactional leadership style related to organizational performance that can influence product innovation in it (Obiwuru, Okwu, Akpa, & Nwankwere, 2011). This is also supported by the empirical results of Pradep and Prabhu (2011) in their study examining the relationship between effective leadership style and employee performance in India. Their study revealed that leadership was positively related to employee performance for transformational behavior and the leadership of transactional contingent behavioral gifts.

Due to inconsistencies in previous research, we need another variable that can bridge the influence of leadership style on product innovation. This research emphasizes the culture of innovation to bridge this. The leadership style chosen by management can also affect the culture of innovation in the corporate environment. This is reinforced by the results of Jung, Chow, and Wu (2003) report that the transformational leadership style of leaders positively creates an innovative climate and culture through empowerment and provides support for innovation. In addition, studies by Moriano, Molero, Topa, and Mangin (2014) show transformational leadership has a positive effect on innovation and risk taking, which are key elements of an innovation culture.

Prior studies and hypothesis development

The Effect of Leadership Style on Product Innovation

Transformational leadership style is chosen to encourage product innovation that will be a way for companies to respond to uncertainty in the existing (external) business environment. In the theory of Robbins (2006) explains that there are four dimensions of transformational leadership style namely charisma, inspiration, intellectual stimulation, and individual consideration. The charisma of the leader in providing the vision and mission as well as the objectives to be achieved can encourage employees to become more total in their work. Inspiration is an important thing that can be considered by employees to the leader to be a role model and guide to achieve goals. Intellectual stimulation requires employees to solve problems and use rationality to create product innovation. Leadership is said to be effective when followers do what is useful and ethical for the benefit of the organization and the followers themselves. Leaders are said to be effective if the leader seeks change, and people in the organization try to try something new. Leaders and followers always work with people to achieve success.

Based on empirical results, transformational leadership has a positive effect on innovative products and company performance (Matzler et al., 2008). Individual considerations make employees understand more about what needs to be done and not because individual services occur between leaders and employees. Transformational leadership, as part of the behavior of strategic leaders, has a strong positive relationship with product market innovation (Elenkov et al., 2005). Elenkov and Manev (2009) also report that visionary transformation leadership influences the adoption of innovation, including product innovation. In addition, previous studies have revealed that transformational leadership is significantly and positively related to Product Innovation performance (Chen et al., 2012). Based on the description that has been explained before then the hypothesis can be formulated as follows:
H₁: Transformational leadership style positively influences product innovation.

Mediation of innovation culture on the influence of leadership style on product innovation

Uncertainty that exists due to contingency problems can be resolved through product innovation coupled with transformational leadership styles that support employee creativity. The result of continuous creativity will be a culture of innovation. Innovation culture becomes a bridge and mediator between the leadership style towards product innovation that will be the goal. To increase product innovation, companies must pay attention to their organizational culture, because culture can both promote and inhibit product innovation (Valencia, 2011). The culture of innovation becomes a strong enough driver for the leadership style chosen by managers or leaders to achieve the company's goals in this case that is product innovation. Together, companies that strive for product innovation then need a culture of innovation that values creativity, openness, customer focus, external orientation, and risk taking.

The empirical study of Dong Jung et al. (2003) state that transformational leaders positively create innovative climate and culture through empowerment and provide support for innovation. A study by Moriano, Molero, TOPA, and Mangin (2014) shows that transformational leadership takes risks, which is a key element of a culture of innovation. Transformational leadership, which is inspiring and, ideally, influential, tends to empower their followers. Previous research revealed that transformational leadership has a significant and positive relationship to the culture of innovation supporters Dong Jung et al. (2003, Dongil Jung, Wu, and Chow (2006) and Tipu, Ryan, and Fantazy (2012). Thus, the hypotheses that can be formulated are:

H₂: Innovation culture mediates the influence of transformational leadership styles on product innovation

Methods

This type of research used in this research is quantitative research. Quantitative research is research that is structured and quantifies data to be generalizable (Anshori & Iswati, 2009, p. 7). The type of data used in this study is primary data. The interval scale not only groups individuals according to certain categories and taps the order of these groups, but also measures the magnitude of the differences in preferences among individuals (Sekaran, 2009). The advantage of internal data is that the data has a distance equation or has the same range between the sorted data. This type of data measurement is the most suitable in this study because the measurement used is a Likert scale of 1-5. This research uses primary data. Primary data is data sourced from answers, or the opinion of the production department manager about the question items included in the three research variables namely transformational leadership style, product innovation, and innovation culture. The data source was obtained from the answers to the questionnaire that had been filled out by the manager of the production section of the company in Surabaya Industrial Estate Rungkut (SIER).

The sampling technique uses the purposive sampling method Arikunto (2006) understanding is: the technique of taking samples not based on random, regional or strata, but based on the consideration of focusing on specific objectives with the sample used is a company that conducts
production processes in industrial areas SIER and is pleased to receive a questionnaire. Respondents used were managers of production, development, research and were involved in the production process in the company. The model used in this research is the causality model or the relationship of influence between research variables. This study uses data analysis methods using WarpPLS software version 5.0. PLS (Partial Least Square) is a structural equation analysis or Structural Equation Model (SEM) based on variants based on variants can simultaneously test measurement models as well as structural models.

Results

This section provides the results of hypothesis testing and its discussion. It is illustrated in Table 1.

Table 1: Hypothesis testing

<table>
<thead>
<tr>
<th>relationship between variables</th>
<th>Path Coefficient</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>GKT → IP</td>
<td>0.422</td>
<td>0.001</td>
</tr>
</tbody>
</table>

Direct Effect after the Mediation Variables

<table>
<thead>
<tr>
<th>relationship between variables</th>
<th>Path Coefficient</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>GKT → IP</td>
<td>0.127</td>
<td>0.120</td>
</tr>
<tr>
<td>GKT → BI</td>
<td>0.422</td>
<td>&lt;0.001</td>
</tr>
<tr>
<td>BI → IP</td>
<td>0.431</td>
<td>&lt;0.001</td>
</tr>
</tbody>
</table>

Indirect Effect

<table>
<thead>
<tr>
<th>relationship between variables</th>
<th>Path Coefficient</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>GKT → BI → IP</td>
<td>0.182</td>
<td>0.009</td>
</tr>
</tbody>
</table>

Hypothesis 1 states that the transformational leadership style has a positive effect on product innovation. The results of statistical tests show that the transformational leadership style has a positive effect on product innovation, so that H1 is accepted. The results of the study indicate that managers' efforts to apply transformational leadership styles to enhance product innovation have been going well.

The results showed that the efforts of production managers at manufacturing companies at SIER to provide an explanation of the vision and mission of the employees was good. In addition, the results of the study indicate that the delivery of vision and mission is an important dimension in implementing transformational leadership styles. In delivering the vision and mission of the company, the employees and other elements of the company understand that there is one goal or goal to be achieved, namely to increase sales and company value. One way to increase sales and corporate value can be by innovating in products to be marketed.
The company's manager's efforts to choose to become a transformational style leader in the company are also implemented by providing an explanation of the pride of working at the company and growing pride in employees and other elements of the company. This will have an impact on increasing the work ethic of employees to do work and operate better. Improved employee work ethic encourages employees to improve their abilities, so that new ideas in product improvement can be realized, so that product innovation can be easily achieved by the company.

Hypothesis 2 states that the culture of innovation mediates the influence of transformational leadership styles on product innovation. The results of statistical tests show that the culture of innovation can mediate the influence of transformational leadership styles on product innovation, so H2 is accepted. It can be concluded that the company's efforts to innovate through transformational leadership styles applied by managers are successful, thus making it easy for company management to improve company performance through product innovation.

The results showed that the culture of innovation in manufacturing companies in SIER exists because of the transformational leadership style undertaken by managers that encourages employees and other elements in the company to innovate products. The results of this study also show a culture of innovation growing through the efforts of managers in providing explanations about the company's vision and mission. In delivering the vision and mission, employees and company elements will know the company's goals, namely to increase sales and corporate value by innovating in products. So that product innovation can be run optimally, therefore the manager encourages the culture of innovation that will be carried out by employees in the company environment and production operations.

The impact of the transformational leadership style undertaken by managers by telling the manager's pride to work in the company and always trying to improve the culture of innovation in employees through the delivery of pride in employees that they have worked in the company. The pride that is embedded in employees becomes the behavior of employees to always provide the best ability to get ideas related to the creation of new products needed by consumers. Managers are respected and trusted in providing direction regarding work decisions and problem solving in the company. One manager's decision is to choose and implement a good work environment for the company and be able to maximize existing product innovations. Product innovation will not always be there suddenly to answer problems regarding decisions taken by managers. In the end, managers make other decisions that encourage a culture of innovation where a creative and open environment that will impact an innovation will be born naturally.

Conclusion

Based on the results of statistical tests and discussion of research results, the conclusions that can be drawn in this study are as follows: First, the results of this study indicate that the transformational leadership style has a positive effect on product innovation. This indicates that the leadership style chosen and applied is one of the important and needed strategies in a company. Transformational leadership style focuses on motivation and giving morality
(enthusiasm) to employees so as to encourage creativity that encourages product innovation in the company. Second, the results of this study indicate that the culture of innovation can mediate the influence of transformational leadership styles on product innovation. This indicates that the culture of innovation is one way to increase the company's competitive advantage in product innovation. Innovation culture is one of the responses made by the company's management to the strict external environment problems of innovation, so that it can be used as an advantage that the company has its own internal strengths in facing challenges.

The research implications of this study are: Theoretical Implications. Theoretically this research is able to explain the theory and add research results related to research on transformational leadership styles on product innovation and innovation culture. Practical Implications. This study produces findings that can inform company management of the importance of the leadership style chosen and applied to improve company performance and a culture of innovation to improve the performance of product innovations to be produced. Policy Implications. This research produces findings that can inform companies in making regulations related to leadership styles that need to be applied by companies in Indonesia, especially manufacturing companies in SIER that can improve employee performance which will also affect company performance through a culture of innovation and product innovation which exists. Then, some limitations in the preparation of this study include: first, there are some companies that are not willing to fill in the research questionnaire that has been given so that the data obtained is less than expected. Second, solid activities carried out by business unit managers in each company make the interview process more in-depth related to the variables studied cannot be done. This results in every manager's perception of the variables studied based on a distributed questionnaire.

References


