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Managing Innovation: An Empirical study of Innovation and Change in Public and Private Companies

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Abstract

The purpose of this research was to study the impact of innovation and change in public and private companies and its relationship to the overall net income or losses in the respective companies. The research describes and explains the relationship between managers/leaders and how innovation and change is perceived in these companies by the key employees'. The factors that will be considered in this study are the behavioral aspects of employees' perception of innovation, and their ability to accept change in their respective daily functions. Results for Hypothesis 1 for all companies based on the surveyed results demonstrate that under favorable economic conditions companies with good leadership easily implement innovation and have favorable bottom line. Hypothesis 2 for all companies also demonstrates that under favorable economic conditions employees that are open to Innovation and Change in Public and Private Companies directly translates to a favorable bottom line.

Keywords: Leadership, Management, Innovation and Change, Innovation Management.

1. Introduction

Over the years research has been conducted to illustrate the importance of innovation and change in organizations. Numerous studies in the management literature such as (Berson & Sosik, 2007), (Dickson & Abbey, 1983), (Burns & Stalker, 1961) have outlined strategies on how important leaders are to the innovative process. A leader sets examples for openness and imagination. Learn to live constructively with eccentricity. (Hesselbein, Goldsmith & Somerville, 2001). It is important to note that leaders are the backbone of implementing innovation in companies.

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In recent years, governments and organizations have stressed the importance of innovation and change. Despite the overwhelming acknowledgement of its importance, some companies are skeptical of this trend. Numerous articles have been published on leadership, innovation, and organizational performance but there have been disputes among scholars and practitioner alike as to the measurement of organizational performance. Although studies have been done to measure the impact of leadership and organizational performance, a majority of the studies have been based solely on the financial impact. This study intends to fill the gap in the literature. The researcher is of the view that in order to measure organizational performance, one must study the financial impact of leadership and innovation as well as employee satisfaction.

2. Literature Review

Companies are increasingly investing in innovation because of its overall impact on performance and daily processes to employees' functions. Innovation typically requires persistent teamwork focused on gradual improvement in delivering value to the company and in some cases final consumers (Tjosvold & Yu, 2007). Innovation can be defined as the implementation of new ideas, processes, products or services (Thompson, 1965).
The term innovation continues to be a focal point in companies and governments alike. Too much innovation can be bad for a company (Davila *et al*, 2006). Durk Jager, the former CEO of Procter & Gamble (P&G) discovered the hard way that too much emphasis on innovation can displace the focus on the profitability of the business. The pursuit of innovation created a significant disturbance in the company and decline in the profits, company morale, and the share price.

A.G. Lafley, the CEO who replaced Jager did not abandon the emphasis on innovation and has successfully moved the company toward significant improved innovation. Under the management of Lafley, the company continues to shift its center of gravity toward higher growth. The increase on the emphasis on innovation, increased speed of getting new products to the market are all attributed to Lafleys' leadership style (Davila *et al*, 2006 p. 263). Implementation of innovation in the case of P&G proves the importance of Leadership in innovation. Below are seven rules to serve as a guide to successfully executing improvements to innovation.

1) Exert strong leadership defining the innovation strategy and designing innovation portfolios.

2) Match innovation to the company business strategy including the selection of innovation.

3) Make innovation an integral part of the companies' business mentality, and ensure the processes and the organization support a culture of innovation.

4) Balance creativity and value capture so that the company generates successful new ideas and gets the maximum return on its investment.

5) Neutralize organizational antibodies that kill off good ideas because they are different from the norm.

6) Create innovation networks inside and outside the organization.

7) Implement the correct metrics and incentives to make innovation manageable and to produce the right behavior.

Davila, Epstein, & Shelton (2006) are of the view that Identifying gaps in implementing innovation will ultimately lead to positive company performance. Leading in innovation requires sound leaders who will ultimately set the tone for the company. The shareholders look to the expertise and leadership of the CEO to maintain the companies' profitability. As a result, shareholders measure the organizations performance by the consistent increase in share price.

To foster innovation in any company, it is important to attract and recruit people who will be innovative. Companies need to develop techniques and instruments to identify innovative people and employ them. Although some people may be more innovative than others, it is the relationship between people and their environment that ultimately determine their level of innovativeness. If an innovative person is put in an environment that does not foster creativity he or she will find it difficult, if not impossible to be innovative on an on going basis (Davila, *et al*, 2006 p.253).

According to Jing and Avery (2008) the measurement of organizational performance has been a persistent source of debate and critique among scholars and practitioners. Previous empirical and theoretical studies have shown companies performance based on net profit or loss margin (Koene *et al.*, 2002), total sales, and percentage of goals met during the fiscal year (Jing & Avery, 2008). (Koene *et al*, 2002), and Waldman *et al*, 2001) are of the view that proper implementation of innovation directly translates to a favorable profit margin. In their research, they both used net profit margin as the sole criteria to show company performance.

Barling et al, 1996 compared leadership types and its impact on company bottom line. The type of leadership in the research was transformational. The study illustrated a direct relationship with a transformational type of leader and an increase to overall sales in the company. Another measurement of company performance studied was the percentage of goals met regarding business units in companies (Howell & Avolio, 1993). In their study, the leaders set specific goals for the employees to meet and encouraged them throughout the year. This method of leadership gave employees a sense of ownership in their daily functions and in turn employees remained motivated to meet their goals.

All the studies examined share similarities in their findings. Good leadership with the proper implementation of innovation will translate to favorable bottom line figures. While the results are similar in all the studies, the selection of measuring company performance solely on the financials is narrow. Many scholars (e.g. Hoffmann & Jones, 2005; Lim & Ployhart, 2004; Keller, 2006) neglected to focus on the correlation between leadership, financial performance, employee satisfaction, and innovation. They employed either financial measurements such as net profit and controllable costs or non financial measurements such as customer and employee satisfaction. To enhance the validity of their research, it is imperative that a combination of both performance measurements should be included in the research.

3. Hypothesis

In studying the relationship between good leadership and innovation and its impact to companies' bottom line, the researcher tests the following hypothesis;
(Hypothesis 1): Under favorable economic conditions companies with good leadership easily implement innovation and have favorable bottom line figures.
(Hypothesis 2): Under favorable economic conditions employees that are open to
Innovation and Change in Public and Private Companies directly translates to a favorable bottom line.

4. Method

4.1 Participants

The participants of the current study were employees of companies in the manufacturing industry and servicing industry respectively. Of the 100 employees interviewed, 20 were managers and supervisors of the Accounting and I.T departments, and the remaining 80 were key staff employees active in the innovative process. The selection process for this research was specifically designed for employees that are actively in the innovation process of the various companies and have had some experience in their fields. The researchers' selection process for the companies in this study was based on convenience, and as such was not randomly selected.

The key staff employees were grouped by seniority within the respective companies because the researcher wanted an accurate feedback from the more experienced staff. All the employees that were interviewed have been with their companies for at least two years. The twenty managers interviewed are evenly split 10 men and 10 women. While the eighty staff employees are 59 men and 21 women.

4.2 Design

The research design for this study is a combination of survey questions in the form of interviews administered to 100 employees of these companies. The researcher for the purpose of this study used this method to specifically ascertain the true views of all respondents. The validity of the responses to any questionnaire is an issue in conducting research (Parry & Crossley, 1950). Observation by the researcher ultimately determines the reliability of the participants answers.

The major threat encountered while the interviews were administered was the hesitancy of the respondents to specific questions about their managers. For fear they may lose their jobs, some gave favorable responses to the questions. Although the researcher began the interview by informing the various participants that their responses would be kept confidential, some remained skeptical. Of the total respondents interviewed, 5 percent were observed as skeptical. In order to minimize the overall threats to the validity of this study, the researcher passed out surveys and then followed up with an interview.

4.3 Measures

For the purpose of this study the researcher compared the method of innovation introduced and its impact on the overall net income or losses for the fiscal year of the respective companies. Also, the leadership in the companies was examined to understand the relationship between leadership and innovation.

Leadership style:

The researcher administered the Multifactor leadership questionnaire (MLQ) to determine how employees view their respective managers and if they become motivated to work hard and think outside the box. Several published papers including (House & Aditya, 1997) noted that the MLQ is the best existing measure of leadership. In every company, without the proper style of leadership, the outcome is dismal (Jung, Chee, & Wu, 2003).

5. Definitions

Transformational Leader:

This style of leadership motivates its team to be effective and efficient. Communication is the base for goal achievement focusing the group on the final desired outcome or goal attainment. This leader is highly visible and uses chain of command to get the job done. Transformational leaders focus on the big picture, needing to be surrounded by people who take care of the details. The leader is always looking for ideas that move the organization to reach the company's vision.

Transactional Leader:

(Burns, 1978) asserts that this style of leadership is given power to perform certain tasks and reward or punish for the team's performance. It gives the opportunity to the manager to lead the group and the group agrees to follow his lead to accomplish a predetermined goal in exchange for something else. Power is given to the leader to evaluate, correct and train subordinates when productivity is not up to the desired level and reward effectiveness when expected outcome is reached.

Innovation method:

In all the companies in this study, innovation was implemented differently and therefore the outcome on the balance sheet statements will reflect accordingly. An example of this is company (A) produces and sells energy drinks. This company implements a new way to market their products by hiring a celebrity spokesman to sell their products. At the end of the month company (A) may have doubled sales by the use of a celebrity spokesman. The key indicator is that sales doubled not net profit or loss. The researcher is specifically conducting a relationship between innovation and the overall impact of the total revenue and net profit.

Procedures

Over a periods of two weeks, the researcher received consent from senior management to conduct the aforementioned study. The approximate duration of this study was 4 weeks. During this period all responses were collected by the researcher. The design of this study was survey questions distributed among the 100 participants. Also interviews were conducted by the researcher.

6. Results

Figure 1. Barnes & Noble

In millions of USD.	52 week ending 2006
Revenue	4 993.93
Net Income	145.04

Figure 2. Amazon.com

In millions of USD.	52 week ending 2006
Revenue	10 711.00
Net Income	190.00

Figure 3. Hanson Inc.

In billions of USD.	52 week ending 2006
Revenue	3 735 520 370.58
Net Income	228 220 708.54

Figure 4. Proctor & Gamble

In millions of USD.	52 week ending 2006
Revenue	68 222.00
Net Income	8 484.00

The financial statements for the following companies from figure 1 through 4 were retrieved to aid in analyzing the impact of leadership and innovation. The results for all four companies are favorable in overall revenues and net income for fiscal year 06.

Barnes & Noble with the assistance of AT&T introduced internet availability to all customers creating more awareness to the stores and attracting more customers. Its competitor Amazon.com used the internet to cut costs and in turn, grew in size of the years. Hanson Inc. innovates in the maximization of its products. As one of the leaders in the building materials industries, the left over materials that are produced in the plant locations get sold even though it was not budgeted for sale during the month thereby increasing the overall sales for the company. P&G CEO A.G. Lafley challenged its key employees to come up with new ideas to expand the companies' growth and for the first time since 1980 began outsourcing its research and development (R&D) for new talent. This radical move at the time transformed the way business was done at P&G.

Results for Hypothesis 1 for all companies based on the surveyed results demonstrate that under favorable economic conditions companies with good leadership easily implement innovation and have favorable bottom line. Hypothesis 2 for all companies also demonstrates that under favorable economic conditions employees that are open to Innovation and Change in Public and Private Companies directly translates to a favorable bottom line. The leadership preferences in the study are mixed. The results indicate that there is no particular style of leadership preferred by employees.

7. Limitations

In addition to linking leadership to innovation and organizational performance, the study makes contribution to previous research being that it directly links organizational performance on a financial scale as well as employee satisfaction.

Despite the contribution to the literature, this study lacked depth in sampling. The sampling size for the study was limited in number because of the time constraint and limited resources required. In addition, some respondents during interview remained skeptical of their responses. To combat this problem, the researcher reassured participants that all responses will remain anonymous.

8. Conclusions

In summary, the definition of leadership in innovation remains contentious, many practitioners and scholars argue that leadership and innovation creates the vital link between organizational effectiveness and employee performance and satisfaction at an organizational level (Jing & Avery, 2008). Many scholars are of the view that leadership behavior can facilitate the improvement of both leaders capability and encourage employees to work better improving their commitment and satisfaction. This ultimately contributes to enhancing organizational performance.

Furthermore, the results of the study illustrates the link between proper implementation of innovation in companies directly translates to a favorable bottom line. Although organizational performance at a financial level has been determined by this study, employee satisfaction also deemed positive. Participants in the study were more likely to remain with their company in the future because of their relationship with their managers and personal ambition to succeed within the company. Employee satisfaction and financial performance combined, specifically validates organizational performance.

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