



Leading for Innovation: A Case Study of Financial Services Organization in Sri Lanka

L. A. Pavithra Madhuwanthi^{1*}

¹*Department of Public Administration, University of Sri Jayewardenepura, Sri Lanka.*

Author's contribution

The sole author designed, analyzed, interpreted and prepared the manuscript.

Article Information

DOI: 10.9734/AJEBA/2020/v18i130271

Editor(s):

(1) Fang Xiang, University of International and Business Economics, China.

Reviewers:

(1) Muhammad Zia-ur-Rehman, Abdul Wali Khan University Mardan, Pakistan.

(2) Mufutau Akanmu Popoola, National Open University, Nigeria.

Complete Peer review History: <http://www.sdiarticle4.com/review-history/61089>

Original Research Article

Received 10 July 2020

Accepted 15 September 2020

Published 25 September 2020

ABSTRACT

Leadership is a crucial determinant of Innovative Work Behavior (IWB) of employees in an organization. Many researchers have found the linkage of the leadership and IWB in various industries, yet very little attention has been paid on the financial services sector, particularly in Sri Lanka [1]. Hence, this study intends to examine how leadership affects employees' IWB in the financial services sector in Sri Lanka. It is a qualitative study, which adopted a case study approach. The study used a purposive sample of 10 innovative employees in the organization, based on the recommendation of the management and in-depth face to face interviews were carried out with those employees. A thematic analysis was employed for data analysis. The findings of the study were the characteristics of transformational leadership predominantly made impact on promoting IWB among the employees in the chosen financial services organization. Further, IWB of the employees are encouraged if the leader provides more autonomy, resources, constructive feedback, recognition to the employees and the leader being a role model for the employees. The implications of the study suggests insights to the organizational leadership to foster IWB among the employees.

Keywords: Leadership; innovative work behaviour; employees; financial services organization.

1. INTRODUCTION

In a competitive, ever changing world, the success and survival of organizations depend on

innovation [2,3]. To navigate the organization to that destination, it is essential to have a competent leadership. Leadership of an organization is one of the key factors which

*Corresponding author: E-mail: pavithra@sjp.ac.lk;

promotes innovative behaviours of the employees [4,5,6]. Yet it depends on the type of leadership styles. Scholarly work on leadership found out that, transformational leadership is always making an enabling environment for innovations [7,8] while other leadership styles such as empowering leadership [9], benevolent leadership [10], and servant leadership [11] also influence over the employee creativity. Innovation leads industries into continuous progression and it is possible to identify innovations in every industry in the economy. But most studies have been carried out in the knowledge intensive services such as consultancy, information technology and engineering [12,13](Jong & Hartog). The trend towards a knowledge-intensive economy supports structures in which human capital and knowledge-intensive business service companies, in particular, play an important role as knowledge brokers and intermediaries (Hipp & Grupp.) [14].

2. STATEMENT OF PROBLEM

In the contemporary dynamic business world, financial services sector is another booming industry where continuous innovations take place for the development and the survival of the financial organizations. As Hipp and Grupp [14] mentioned that, the characteristics of innovation activities in the service sector are substantially different from other industrial sectors in terms of newly developed products (incremental versus radical, product versus process), the character of services (process orientation, intangibility), the customer integration and the respective provision processes, as well as for the organizational aspects and the co-ordination of activities to develop new services. In such a premise employees who are willing and able to bring innovations to the organization is very much crucial. Previous studies have confirmed that employee innovativeness is affected by individual cognitive process, personality attributes [15,16,17] and organizational factors as well (Woodman, Sawyer, & Griffen.) [18]. Further, other scholars mentioned behavioural perspective is another important aspect to determine the innovative behaviour of employees [12,19](Jong & Hartog,). The behavioural aspect of leadership focuses on the traits and behaviours of leaders that are directly linked to individual, group or organizational outcomes [13]. Hence, the objective of this study is to examine how leader's behaviour influences on innovative work behaviour of the employees. This study is

based on a case study, which is a large financial services organization in Sri Lanka in terms of client base and the investment portfolio.

3. LITERATURE REVIEW

3.1 Leadership

The common definition of leadership is, as the process of influencing others towards achieving some kind of desired outcomes (Jong & Hartog) [12]. However, the way leaders are behaving and reaching the final outcome may be vastly different categorizing them into number of leadership styles. When discussing the leadership, the transformational leadership comes for the first due to its reputation which is defined by Yukl [20] as the process of influencing major changes in the attitudes and assumptions of organization members and building commitment for the organization's mission or objectives. Transformational leaders are concerned with the transformation or change of followers' fundamental values, goals and aspirations aligned with the organizational values and goals [21]. There are four distinct components that characterize transformational leadership, commonly known as the "Four I's" – Individualized Consideration, Intellectual Stimulation, Inspirational Motivation, and Idealized Influence [22]. Transformational Leaders have been found to be inspired in employees beyond expectations [23]. Thus, studies proved that, transformational leaders can influence creativity enhancement behavior of their subordinates Bass, [24].

Conversely, transactional leadership is a style where the individual gains compliance from followers through either explicit or implicit "contractual" relationships [13]. Transactional leadership is primarily focused on the exchange dimension between leaders and followers. The relationship between a transactional leader and his employee is characterized by actions chosen to serve their own interests [25]. Rewards and disciplines are the tools used by the transactional leaders as to influence over the followers' performance [23].

3.2 Innovative Work Behaviour

According to the innovative theorists innovation does not mean a single activity, but it is a process which is composed of two stages: initiation and implementation [26,27]. Under the first phase, innovative idea generates in the mind

of an employee and then the successful completion of the innovation process takes place after implementing the idea properly. Hence, IWB is defined as the voluntary willingness by employees to constitute on-the-job innovations, for example, upgrading of ways of working, communication with direct colleagues, the use of computers, or the development of new services and products [28]. IWB is recognition of problems and initiation and intentional introduction of new and useful ideas, as well as a set of behaviors needed to develop, launch and implement ideas with an aim to enhance personal and/or business performance [29,30]. West & Farr [31] definition of IWB as the employee behavior directed at the generation, development, introduction and/or application (within a role, group or organization) of ideas, processes, products or procedures, new and intended to be beneficial for the relevant unit of adoption.

3.3 Case Study

Selected organization for the study is one of the largest conglomerates in Sri Lanka and known as a trend setter in the financial services sector in the country in terms of client base and investment portfolio. Though its core business is providing financial services, organization has been developed as a group of companies with a number of subsidiaries and variety of business units encompassing numerous industries locally and globally. Also the organization claims as the leader in number of financial service sectors and some other non-financial services as well. In order to retain its competitive position frequent innovations are taking place as both financial product innovations and other business innovations. Various awards and acclaims received by the organization proved that it is in the forefront in innovation of its business disciplines.

Two departments selected for the study, i.e. Strategic Business Unit (SBU) and the Business Solutions unit of the Information Technology (IT) arm of the group have been recognized as the most innovative departments by the top management of the organization.

3.4 Research Methods

The researcher adopted a qualitative research method which is a social enquiry that emphasizes a complex, holistic, systematic examination of different experiences in social and natural spaces [32]. Also, the research

approach is case study, that is an empirical study that investigates a contemporary phenomenon in depth and with its real-life context [33]. The interviewees for the study were selected from the two key innovative functional areas in the organization: Strategic Business Unit and Business Solutions unit of the Information Technology arm of the group. According to the top management of the organization, these two departments have been recognized as the most innovative departments in the organization. Further, in the study of Hislop [34] has recognized that employees whose work is primarily intellectual and non-routine in nature as the knowledge workers and the categories of occupations are such as lawyers, consultants, IT/software designers, advertising executives, accountants, scientists/engineers, and architects.

The sample consists of 10 executives whom representing 5 from the each department. For the selection of those 10 innovative executives from the two departments, researchers sought the support from the two heads of the departments. Based on their long standing experience with the employees, the heads were asked to recommend the most innovative 5 executives from the two departments. Accordingly 7 male executives and 3 female executives took part in the interviews. The data were collected through in-depth face to face interviews with those participants based on the semi-structured interview guide. As suggested by Churchill [35] and Eisenhardt [36], in-depth interview is a better qualitative technique for relatively unexplored subjects. Since leadership and IWB in the financial sector is a quite new area in Sri Lankan context, it is appropriate to employ in-depth interviews with the interviewees. Each interview took average one hour and follow up questions were asked where further clarifications were necessary. All the interview notes were transcribed properly and the data were analyzed on the basis of themes emerged during the interviews.

4. FINDINGS AND DISCUSSION

4.1 Greater Autonomy Leads to Innovation

Almost all the interviewees of the study highlighted the significance of sufficient autonomy to carry out their duties as one of the main inspirations to think about innovations in the organization. The extent of autonomy given by the head of the department leads them to perform their functions independently while they

are working with such a mentality, opportunities are higher to do experiments/try out new things, which sometimes ended up with innovations.

Following two excerpts from the interviewees from the IT department and SBU stated that, if the sufficient autonomy is not given, subordinates are supposed to depend on the superior for every matter which may have a dependency mentality. In turn, it deteriorates the self-confidence and fades the innovative thinking of the subordinate.

“...in the absence of the autonomy to do your work properly, you will become a dependent on your boss and you will do whatever superior asks you to do, but not something on your own....” (SBU Interviewee 2)

“I like to work independently, as long as I don't need any help. That freedom directs me for innovation” (IT Interviewee 3)

Similar empirical findings are explained in the scholarly work of Krause [37] reporting that, granting of degree of freedom, autonomy, space and discretionary authority by the leadership to the subordinates is needed for innovation. Further, a study of Irish manufacturing organization which was done by Ramamoorthy et al [38], revealed autonomy has a direct impact over employees' IWB. Among the NASA scientists also, it was proved that providing subordinates with much freedom to explore and communicate with each other would lead to enhance the innovative behaviour [4].

4.2 Leader as a Role-Model for Innovation

Jong and Hartog [12] have identified that, the behaviours of innovative role-modelling leader are, exploring opportunities, generating ideas, championing, being an example of innovative behaviour, and putting efforts in development. As Gumusluoglu and Ilsev [39] described that, the championing leader always has a vision of motivating the followers, increases their willingness to perform beyond expectations, and challenges them to adopt innovative approaches in their work. Interviewees in the study are also expecting similar aspirations from their leaders as to push them towards more innovative culture.

“When my boss came up with an innovative idea and explained to us, I always feel that why wouldn't I do similar things and I keep my morale up....” (SBU Interviewee 2)

“The way my boss performs made me think 'out of box'....” (IT Interviewee 1)

This leadership characteristic of role modeling has been explained by Bass and Avolio [7] as the “idealized influence” (charismatic role modeling) which is an inherited behavioural feature in the transformational leadership. Therefore, in many of the transformational leadership research found that there is a direct and positive relationship between role modeling leadership and innovation [39,23,8].

4.3 Providing Resources and Innovation

Many of the instances where innovations do not come to forward because of not getting sufficient resources to implement the innovative idea. Therefore, the participants have seen the ability of the leader to support them with the necessary financial and other resources as a main criteria to promote innovation within the organization. According to their experience, it further stimulates them for future innovations. Some relevant quotes from the interviewees are;

“Sometimes my boss would promise me to release the required resources even before I requested him, which made me very happy about him, how helpful he is....” (IT interviewee 3)

“When we see how the head of the department is allocating the budget for our future innovative ideas, we never felt that spending time for innovation in the organization is a waste of our time and efforts” (IT interviewee 5)

Previous researches have also proved the positive relationship between providing resources and innovations. In the study of Ekvall and Ryhammer [40] found that resource availability for innovation has a strong relationship with the innovations. Further the findings of Martins and Fernandes [41] revealed that, assurance of resource availability has a higher tendency towards developing innovations in the small and medium enterprises.

4.4 Employee Recognition and Innovation

Recognition includes giving praise (compliments), awards (e.g. certificates of achievement, private budgets, increased autonomy) and ceremonies (e.g. public speeches and celebrations) Yukl, [42]. As, Nijhof et al [43] more interestingly emphasized on the fact that recognition is not merely monetary or other non

financial benefits, but admirable words, commendations, recognition in public etc too will mean a lot when it comes to recognition. Interviewees stated that, recognition is really an encouraging factor not only the particular employee, but also it is an eye-opener for other colleagues in the department to go ahead with innovations.

“ the better part of the recognition is not to be proud of myself , but to pass on that message among other colleagues that an innovation took place in your department and you can carry forward it (IT Interviewee 1)

Another interviewee representing SBU explained that, the inability of the head of the department to give the due recognition to the innovations made by the employees would demoralize employees to further come up with innovations which will diminish their innovative thinking and behaviours.

“In the absence of the recognition in the organization for the innovations that employees are made, it does not provide any stimulus to further implement any innovation. Because nobody knows the novel things what we have done....” (SBU Interviewee 1)

4.5 Constructive Feedback and Innovation

The research of Hellstrom and Hellstrom [44] identified that personal feedback given by the leader as a main determinant to uphold the willingness of employees to strive for innovation. Positive, non-slashing feedback is perceived as a source of improvement. Nevertheless, scholars emphasized on the importance of negative feedback too, as a vital tool for the development of novel concepts and ideas [45,46]. Some interviewees are very much particular about the nature and the sign of the feedback is provided by the head of the department. According to them, because it determines the future of the innovative idea and implementation. Yet others, especially some interviewees from the IT department only concern about the content of the comment/feedback rather the tone and sign of the delivery. Following two excerpts illustrate the difference in the ideas;

“For me the feedback sign, i.e. whether it is positive or negative is very much important to continue or sabotage my innovative idea” (SBU Interviewee 4)

“I don't mind that the feedback is positive or negative as long as it helps my innovation” (IT Interviewee 3)

In the study of Jong and Hartog [12] stated that, innovations and implementations are fostered under the condition of leaders useful feedback and leaders are organizing others to provide such feedback to the employees. However, Kluger and DeNisi [47] concluded that individuals accept or reject feedback depending upon their perceptions of feedback consequences. Even if the comment is negative, but the employee understands that it may have positive impact later, then it is less likely to reject by the employee.

5. CONCLUSION AND RECOMMENDATIONS

This paper examined the impact of leaders over the IWB of the employees in the financial services organization in Sri Lanka by using qualitative empirical data. The results of the study revealed that, IWB of the employees were improved by the transformational leadership in the chosen financial services organization, where leader grants much autonomy, provides sufficient resources (both the financial and others), gives constructive feedback on the innovations and due recognition to the employees led to enhance the IWB. Also innovative employees expect the leader should also be an innovative role model for the followers. Even if the interviewees were from two departments bearing different job roles, the employees from the both departments expect similar behaviours from their leaders. As literature informed, leadership characteristics found in the chosen study were mostly transformational leadership style [22,23]. Studies in the area of innovation and leadership have identified a direct and positive relationship between the transformational leadership and innovation [8,39]. It implies that, when working with the knowledge-intensive employees, organizations are supposed to develop transformational leaders as to stimulate the innovative behaviours of the employees. As studies suggested that, transformational leadership competencies can be developed through training, structured workshops, feedback sessions, and personal coaching [48,49]. Also in recruiting the employees for leadership positions, organization has to be inclined towards the candidates who are exhibiting transformational characteristics.

As the limitations of the study, it was identified that the study scope is for a single financial services organization and also the small sample size. But it would be more useful if the study can expand its scope to the number of innovative financial services organizations in the country by adopting a quantitative survey to further explore how the IWB of the employees can be improved under the different leadership behaviours.

CONSENT

Before the interviews, the researcher explained the chosen executives the purpose of the study and their verbal consent for the interview.

COMPETING INTERESTS

Author has declared that no competing interests exist.

REFERENCES

1. Raveendran T, Gamage AS. Impact of leadership styles on employee performance: a review of literature. *Journal of Business Studies*. 2018;5(2):60-80.
2. Dess GG, Pickens JC. Changing roles: Leadership in the 21st Century. *Organizational Dynamics*. 2000;28:18-34.
3. Tushman ML, O'Reilly CA. *Winning through innovation*. Cambridge, MA: Harvard Business School Press; 1997
4. Andrews FM, Farris GF. Supervisory practices and innovation in scientific teams. *Personnel Psychology*. 1967;20:497-515.
5. Redmond MR, Mumford MD, Teach RJ. Putting creativity to work: Leader influences on subordinate creativity. *Organizational Behavior and Human Decision Processes*. 1993;55:120-151.
6. Tierney P, Farmer SM, Graen GB. An examination of leadership and employee creativity: The relevance of traits and relationships. *Personnel Psychology*. 1999;52:591-620.
7. Bass BM, Avolio BJ. *Transformational leadership development: Manual for the Multifactor Leadership Questionnaire*. Palo Alto, CA: Consulting Psychologists Press;1990.
8. Shin SJ, Zhou J. Transformational leadership, conservation, and creativity: evidence from Korea. *Academy of Management Journal*. 2003;46(6):703-14.
9. Zhang X, Bartol KM. Linking empowering leadership and employee creativity: The influence of psychological empowerment, intrinsic motivation, and creative process engagement. *Academy of Management Journal*. 2010;53:107-128.
10. Niu CP, Wang AC, Cheng BS. Effectiveness of a moral and benevolent leader: Probing the interactions of the dimensions of paternalistic leadership. *Asian Journal of Social Psychology*. 2009;12:32-29.
11. Neubert MJ, Kacmar KM, Carlson DS, Chonko LB, Roberts JA. Regulatory focus as a mediator of the influence of initiating structure and servant leadership on employee behavior. *Journal of Applied Psychology*. 2008;93:1220-1233.
12. Jong JPJ, Hartog DD. How Leaders Influence Employees' Innovative Behaviour. *European Journal of Innovation Management*. 2007;10:41-64.
13. Lee J. Effects of leadership and leader-member exchange on innovativeness. *Journal of Managerial Psychology*. 2008;23(6):670-687.
14. Hipp C, Grupp H. Innovation in the service sector: The demand for service-specific innovation measurement concepts and typologies. *Research Policy*. 2005;34:517-535.
15. Barron F, Harrington DM. Creativity, intelligence, and personality. *Annual Review of Psychology*. 1981;32:439-476.
16. McCrae RR. Creativity, divergent thinking, and openness to experience. *Journal of Personality and Social Psychology*. 1987;52:1258-1265.
17. Hurt H, Joseph K, Cook C. Scale for the measurement of innovativeness. *Human Communication Research*. 1977;4:58-65.
18. Woodman RW, Sawyer JE, Griffin RW. *Toward A Theory of Organizational Creativity*. *Academy of Management Review*. 1993;2:293-321.
19. Janssen O. Job demands, perceptions of effort-reward fairness, and innovative work behavior. *Journal of Occupational & Organizational Psychology*. 2000;73:287-302.
20. Yukl GA. *Leadership in Organizations*, 2nd ed. Englewood Cliffs, NJ: Prentice Hall;1989.

21. Rothfelder K, Ottenbacher MC, Harrington RJ. The impact of transformational, transactional and non-leadership styles on employee job satisfaction in the German hospitality industry. *Tourism and Hospitality Research*. 2013;12(4):201-214.
22. Avolio BJ, Bass BM. *The full range of leadership development*. Binghamton, NY: Bass, Avolio & Associates;1991.
23. Bass BM. *Leadership and Performance Beyond Expectations*, Free Press, New York, NY; 1985.
24. Bass BM. Two decades of research and development in transformational leadership. *European Journal of Work and Organizational Psychology*. 1999;8(1):9-32.
25. Vera FBFA. Power and transformational leadership in public organizations. *International Journal of Leadership in Public Services*. 2014;10(4):217–232.
26. Zaltman G, Duncan R, Holbek J. *Innovations and Organizations*, Wiley, New York, NY; 1973.
27. Axtell CM, Holman DJ, Unsworth KL, Wall TD, Waterson PE, Harrington E. Shopfloor innovation: facilitating the suggestion and implementation of ideas. *Journal of Occupational & Organizational Psychology*. 2000;73:265-85.
28. Dorenbosch L, van Engen ML, Verhagen M. On-the-job Innovation: The Impact of Job Design and Human Resource Management Through Production Ownership. *Creativity and Innovation Management*. 2005;14(2):129–141.
29. De Jong JPJ, Den Hartog DN. How leaders influence employees' innovative behavior. *European Journal of Innovation Management*. 2007;10(1):41-64.
30. Farr F, Ford C. Individual innovation, in West MA, Farr JL. (Eds). *Innovation and Creativity at Work: Psychological and Organizational Strategies*, Wiley, Chichester. 1990;63-80.
31. West MA, Farr JL. *Innovation and creativity at work*. Oxford, England: John Wiley & Sons Ltd; 1990.
32. Rallis SF, Rossman GB. Mixed methods in evaluation contexts: A pragmatic framework. *Handbook of mixed methods in social and behavioral research*. 2003;491-512.
33. Yin RK. *Case study research: Design and methods*. Sage publications. Thousand oaks; 2009.
34. Hislop D. *Knowledge Management in Organizations: A Critical Introduction*, Oxford University Press, Oxford; 2005.
35. Churchill GA. *Marketing research: methodological foundations*, Fort Worth: The Dryden Press;1999.
36. Eisenhardt KM. Building theories from case study research. *Academy of Management Review*. 1989;14(4):532-550.
37. Krause DE. Influence-based leadership as a determinant of the inclination to innovate and of innovation-related behaviors: an empirical investigation. *Leadership Quarterly*. 2004;15(1):79-102.
38. Ramamoorthy N, Flood P, Slattery T, Sardesai R. Determinants of innovative work behaviour: development and test of an integrated model. *Creativity and Innovation Management*. 2005;14(2):142-150.
39. Gumusluoglu L, Ilsev A. Transformational leadership, creativity, and organizational innovation. *Journal of Business Research*. 2009;62:461-473.
40. Ekvall G, Ryhammer L. The creative climate: its determinants and effects at a Swedish university. *Creativity Research Journal*. 1999;12:303-10.
41. Martins JM, Fernandes MT. Too small to innovate? Creating value with fewer resources. *Journal of Business Strategy*. 2015;36(2):25–33.
42. Yukl G. *Leadership in Organizations*, 5th ed., Prentice-Hall, Englewood Cliffs, NJ; 2002.
43. Nijhof A, Krabbendam K, Looise JK. Innovation through exemptions: building upon the existing creativity of employees. *Technovation*. 2002;22(11):675-683.
44. Hellstrom C, Hellstrom T. Highways, alleys and by-lanes: charting the pathways for ideas and innovation in organizations. *Creativity and Innovation Management*. 2002;11(2):107-14.
45. Ilgen DR, Fisher CD, Taylor MS. Consequences of individual feedback on behavior in organizations. *Journal of Applied Psychology*. 1979;64:349-71.
46. Stone DL, Stone EF. Effects of feedback consistency and feedback favorability on self-perceived task competence and perceived feedback accuracy. *Organizational Behavior and Human Decision Processes*. 1985;36:167-185.
47. Kluger AN, DeNisi A. Effects of feedback interventions on performance: a historical review, a meta-analysis, and a preliminary

- feedback intervention theory. 49. Barling J, Weber T, Kelloway E. Psychological Bulletin. 1996;119:254-284.
48. Kirkbride P. Developing transformational leaders: the full range leadership model in action. Industrial and Commercial Training. 2006;38(1):23–32.
49. Barling J, Weber T, Kelloway E. Effects of transformational leadership training on attitudinal and financial outcomes: a field experiment. Journal of Applied Psychology. 1996;18(6):827-32.

© 2020 Madhuwanthi; This is an Open Access article distributed under the terms of the Creative Commons Attribution License (<http://creativecommons.org/licenses/by/4.0>), which permits unrestricted use, distribution, and reproduction in any medium, provided the original work is properly cited.

Peer-review history:
The peer review history for this paper can be accessed here:
<http://www.sdiarticle4.com/review-history/61089>