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Leading company's innovation capability

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TIIVISTELMÄ:

Innovaatiot ovat tärkeä ajuri yritysten menestykselle muuttuvassa ja dynaamisessa toimintaympäristössä. Jatkuvaa kykyä tuottaa innovaatioita pidetään kestävän kilpailuedun lähteenä. Kykyä tuottaa jatkuvasti innovaatioita hyödyntäen yrityksen kyvykkyyksiä ja resursseja kutsutaan innovaatiokyvykkyydeksi. Yrityksen kyvykkyyksistä ja innovaatiokyvykkyydestä on tarjolla varsin runsaasti aikaisempaa tutkimusta. Aikaisemmassa innovaatiokyvykkyyttä käsittelevässä tutkimuksessa on tutkittu johtamisen roolia yritysten innovaatiokyvykkyyteen ja erityisesti transformationaalinen johtajuus on vahvasti yhteydessä innovaatiokyvykkyyteen.

Tämän tutkielman tarkoituksena on tutkia, miten innovaatiokyvykkyyttä johdetaan eräässä suomalaisessa teknologia-alan suuryrityksessä. Tutkimuksen tavoitteena on lisätä tietoa siitä, millaisia kokemuksia yrityksen johtajilla on yhtiön innovaatiokyvykkyydestä ja kuinka johtajat vaikuttavat yrityksen innovaatiokyvykkyyteen johtamisen keinoin.

Tutkimuksen teoreettisessa viitekehyksessä käsitellään innovaatioita, innovatiivisuutta, innovaatiokyvykkyyttä sekä eri johtamistyylien vaikutusta innovaatiokyvykkyyteen sekä sen rakennuspalikoihin. Tutkielma on luonteeltaan laadullinen tutkimus. Laadullisen tutkimuksen aineisto kerättiin puolistrukturoidulla teemahaastattelumenetelmällä haastattelemalla kahdeksaa kohdeyrityksen johtajaa.

Tämä tutkimus osoittaa, että kohdeyrityksen innovaatiokyvykkyys perustuu ensinnäkin vahvaan osaamiseen toimialalta, joka mahdollistaa uusien innovaatioiden syntymisen. Toisekseen yhtiössä on vankka osaaminen tiimien- rajat ylittävästä yhteistyöstä, jonka avulla vaikutetaan osaamisen kasvuun, tehokkaaseen ongelman ratkaisukykyyn sekä innovatiivisten ratkaisujen löytymiseen. Näiden vahvuuksien lisäksi yhtiössä on innovatiivisuutta tukeva organisaatiokulttuuri sekä prosesseja, jotka tukevat innovaatioiden syntymistä kaikilla osa-alueilla. Yhtiön innovaatiokyvykkyyden kuvaamisen lisäksi tämä tutkimus osoittaa, että yhtiössä vahvimmin edustettuna oleva johtajuustyyli on transformationaalinen johtajuus, jonka lisäksi motivoiva johtajuus sekä autenttinen johtajuustyyli olivat hyvin edustettuina. Tutkimuksen tulokset osoittavat, että johtajuudella on suuri ja monitahoinen vaikutus tämänkin yrityksen innovaatiokyvykkyyteen.

KEYWORDS: Innovations, innovation capability, leadership style, transformational leadership, motivating leadership, moral leadership

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1 Introduction

How to gain sustained competitive advantage is a fundamental question of strategic management field. Researchers has studied the matter through different approaches; competitive forces approach (Porter, 2008), strategic conflict (Shapiro, 1989), dynamic capabilities theory (Teece et al, 1997). The dynamic capabilities approach explains the competitive advantage to result from a company's ability to renew and adapt its competences to match the needs of rapidly changing markets. On the other words, to adapt and answer the needs of changing business environment companies need innovative outcomes (Teece et al, 1997, p. 509 – 510; 515).

Innovations are born from the employees' innovative ideas. Innovative ideas can develop into valuable innovations in a fertile environment with a suitable infrastructure. In a technology company, innovations are usually linked to new products based on new technologies. Nevertheless, the scale of different innovations is broader, and innovations are defined as new goods or existing goods with new qualities, new methods of doing things, introducing new goods to new markets, new raw materials in production or even new business models (Schumpeter, 1934). The definition of innovation includes anticipation of value which in turn brings competitive advantage to the company. Innovations are a key driver for organizational success in today's dynamic business environment and innovations are considered as a source of sustained competitive advantage. Promoting innovations is recognized to be important but it is also a challenge for many organizations (Salavou, 2004; Chatzoglou & Chatzoudes, 2018).

Companies that desire to create innovations need to influence the factors contributing to the emergence of innovative ideas and provide infrastructure to support the idea generation into valuable innovation. Producing innovative ideas and the ability to generate innovative ideas into innovations is called a company's innovation capability (Lawson & Samson, 2001). Company's innovation capability is an interesting research area as today it is a key to a company's growth and success (Chang et al, 2017).

Previous research on innovation capability has studied leader's role in affecting organization's ability to innovate and especially transformational leadership style is strongly linked to innovation capability (Aragón-Correa et al, 2005; Lee, 2020; Jung, 2003). Transformational leaders have relevant capabilities to promote innovative behavior in the organizations and manage the innovation process successfully. As leadership style has multifaceted impact on organizations innovation capability it is interesting to research how the leaders in a large technology driven company manage innovation and improve the innovation capability.

1.1 Purpose and structure of the thesis

The purpose of this thesis is to research how innovation capability is managed in a large Finnish technology company. The aim of this research is to increase knowledge of how leaders experience innovation capability and how they contribute to it through leadership practices. This thesis consists of the theoretical background, research methodology, results and discussion. The theoretical background will give an overview of the key concepts of the study and how the themes are presented in the previous literature. The theoretical background consists of chapter 2 and 3 and answers the questions about what innovation capability is, what are the antecedents of innovation capability and how innovation capability is affected by leadership practices. Research methodology is presented in chapter 4 which includes a short presentation of the case company, research approach, methodological choice for research data collection and analysis. The empirical part of this thesis seeks to answer the question of how company leaders understand and contribute to the company's innovation capability.

1.2 Research questions and objectives

The main objective of this research is to find out how leaders contribute to a company's innovation capability. Another objective for this research is to understand the elements

of target company's innovation capability. Increasing the understanding about the underlying factors shaping the company's innovation capability and the leaders' contribution to it will provide the company valuable information on how to improve the innovation capability with existing resources.

The main research question is.

- How do leaders contribute to a company's innovation capability?

By answering the following sub questions, this study will find an answer to the main research question:

- What is innovation capability?
- How to enhance innovation capability?
- What kind of leadership is adopted in the case company to support innovation capability?

1.3 Theoretical background and structure of the thesis

The theoretical background of this thesis consists of the theory of innovations (Schumpeter, 1934; Chatzoglou et al, 2018), innovativeness (Hult et al, 2004) innovation capability (Lawson & Samson, 2001; Calantone, 2002) and leadership styles affecting innovation capability (Lee, 2020; Chatzoglou et al, 2018; Jung, 2003). To understand the importance and the need for innovation, it was necessary to clarify the definition of innovation. Innovativeness is the predecessor of innovation so it was useful to present the antecedents of innovativeness too. After that the concept of innovation capability is presented. After covering the key concepts of this study the leadership styles affecting the innovation capability are presented in the third chapter. Fourth chapter covers the methodology for the research and fifth chapter presents the results of the study. The results of the this research are discussed in the final chapter 6.

2 Innovation, innovativeness, and innovation capability

Schumpeter (1934) proposed that economic development is about bringing out new combinations i.e., innovations. Schumpeter's categorization of possible new combinations can be considered as the earliest definition for diverse types of innovations. Schumpeter categorized innovations into five groups based on the idea that economic development is about new goods or existing goods with new qualities, new methods of doing things, introducing new goods to new markets, new raw material in production and new business models. This definition of innovations includes the concept of newness and innovations can be seen as entirely new or doing existing things in new, innovative ways (Schumpeter, 1934, p. 66). The Oslo Manual (OECD, 2018) provides a general definition for innovations. OECD manual defines innovations as new or improved products or processes that are different from the previous ones and that are available for the users or taken into use. The OECD definition is universal and simplified but covers the primary features of innovations; newness, improvement, valuable and made visible or taken into use (OECD, 2018, p. 32). Salavou (2004) separates the concept of innovation from innovativeness by presenting that the definition of innovation include newness which is assessed in subjective ways. Innovativeness is defined more as a company's tendency to innovate (Salavou, 2004, p. 33).

Innovations are the key drivers for organizational success in today's dynamic business environment (Teece, 2007, p.1320; Salavou, 2004, p.33; Chatzoglou et al, 2018, p.44). Chatzoglou et al (2018) has empirically studied the relationship between innovation and competitive advantage and the antecedents of innovation. Their research confirms a strong relationship between innovation and the development of competitive advantage. They identified three phenomena where innovations positively affect competitive advantage. Firstly, innovations such as the introduction of new products or services bring new value to the customers which lead to an enhanced market position compared to competitors. Secondly innovations related to organizational processes improve productivity and may increase customer and company value indirectly through decreased production cost or service delivery time. Thirdly, the degree of organizations innovation

capability determines how well a company can implement new strategies, renew its operations, and adapt to changes in external environment (Chatzoglou & Chatzoudes, 2018, p. 51-52).

Chatzoglou et al (2018) suggests that the antecedents for innovation are organizational culture, knowledge management, intellectual capital, and organizational capabilities. Organization culture impacts the creation of innovation by affecting employee's mindset and being supportive to innovation. An organizational culture that supports individual initiatives and self-organization in task accomplishment is a favorable culture to facilitate innovations. This kind of organization culture is defined as adaptable and can renew based on the needs of changing business environment. Overall knowledge management is defined as a process to acquire, create, share, and manage information and knowledge. The knowledge management process is associated to the market orientation and learning orientation of a firm which indicates how well a company can response to a change in the business environment. Knowledge management builds a background for the innovativeness of the company. Intellectual capital refers to human-, structural- and customer relations capital possessed by the company. Human capital contains employee's knowledge skills, capabilities, experiences, attitudes, and creativity that together form an innovative mindset. Structural capital refers to the company's overall infrastructure and how well it supports innovative activities. The relationship between customers, suppliers, and other stakeholders forms the customer relations capital which possesses knowledge, perspective, competences, networks, and experiences that can be utilized as a trigger for new innovative ideas (Chatzoglou & Chatzoudes, 2018, p. 49 – 52; 57-58).

2.1 Types of innovations

In literature innovations are categorized by their nature as exploitative or exploratory innovations. Exploitative innovations are also called incremental innovations and they are built on existing knowledge. Exploitative innovations extend the lifetime of existing products and services on existing markets. Exploratory innovations are also called radical

innovations and are about utilizing new knowledge and creating new products and services to new customers or markets (Jansen et al, 2006, p. 1661-1662). Jansen et al (2006) researched the effect of exploratory and exploitative innovation on financial outcomes and the antecedents to diverse types of innovations. Their research proposes that organizations operating in a dynamic environment can increase their financial performance by focusing on explorative innovations which shelters them from obsolescence of the competences, products, and services and opens new opportunities in new markets and with new customers. According to Jansen et al (2006) research pursuing exploratory innovations is enhancing the competitive advantage and financial performance in the long run because these types of innovations are the source of new market entries and finding new customers in saturated markets. Exploitative innovations on the other hand are useful in highly competitive environments due to customer loyalty (Jansen et al, 2006, p. 1670 -1671). Exploitative innovations are new features or improvements to existing products or services provided to existing customers. Exploitative innovations can be seen as competitive drivers in markers that are technologically mature and customer needs are fulfilled by providing newness to existing products. Exploitative innovations are needed to expand the lifecycle of innovations. For many companies' exploratory innovations followed by exploitative innovations become the actual cash cows that enable the development of new innovations (Garcia & Calantone, 2002, p. 123).

Garcia & Calantone (2002) reviewed the usage of the terminology in innovation literature and found out that the dichotomous classification of innovations to exploitative or explorative is too simplistic. Garcia & Calantone added a category for a really new innovation in the innovation classification. A really new innovation is an innovation that is categorized between exploitative and exploratory innovation. Exploratory innovation changes the game by causing marketing and technological discontinuities. Exploratory innovations do not often respond to an existing need but rather wake up a previously unrecognized need in customers. Exploratory innovations result in discontinuity both at the company and customer level which means that disrupting an existing product with new innovative product company's customer base might change. Exploitative

innovations instead cause marketing or technological discontinuities. The new category, really new innovations, covers the combinations between exploratory and exploitative innovations. The amount of discontinuity resulting from the innovation is the key to classifying an innovation to this category. An innovation is classified as a really new innovation when it causes a discontinuity either on market or in technology level but not both (Garcia & Calantone, 2002, p. 120-122).

Gunday et al (2011) researched the relationship between different innovation types. In their research they categorize the innovations to organizational-, process-, marketing-, and product innovation. Their research confirms that organizational innovation supports the existence of all the other innovation types. On the other words organizational innovation is a fundamental building block in supporting other types of innovations to be born. In their research Gunday et al (2011) explicitly linked different innovation types to company performance and created a model to illustrate the effect between different innovation types and the dimensions of company's overall performance which consist of innovative-, market-, production- and financial performance (Gunday, 2011, p. 671-672).

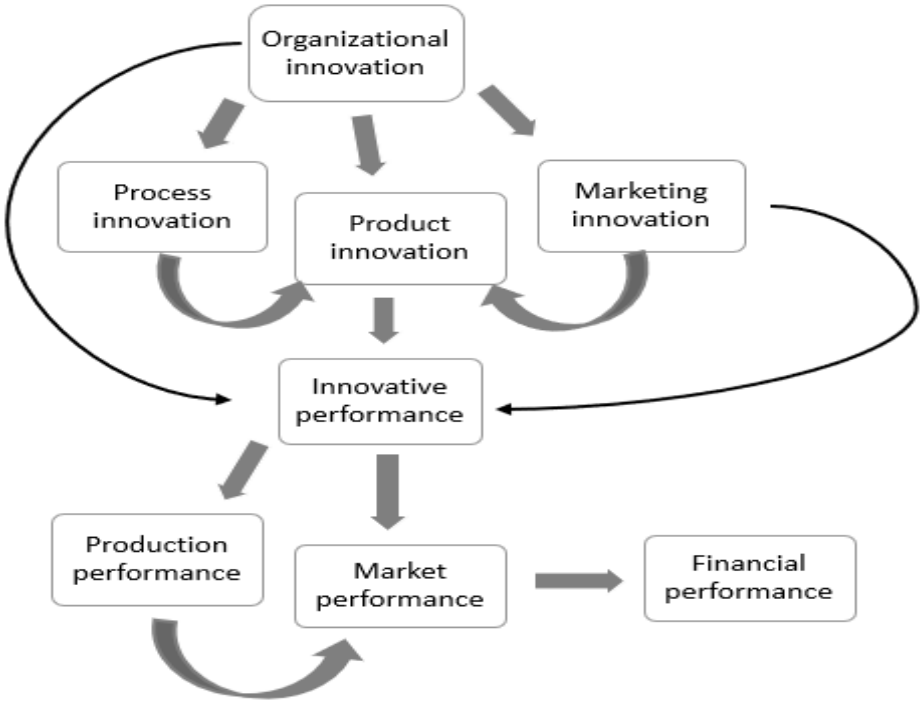

Figure 1. Relationship between innovation types and company's performance. (Modified, Gunday, 2011, p. 671-672).

Gunday et al (2011) model of the relationship between different innovation types and the impact on company's financial performance shows, that all the innovation types unless process innovation directly contributes to the innovative performance of a company. Process innovation enhances product innovation and affects innovative performance indirectly through product innovation. The enhanced innovative performance positively contributes to production performance and market performance. However, only market performance directly contributes to financial performance. Production performance affects financial performance indirectly through improved market performance. As a summary all innovation types are important and supports the innovative performance of a company which in turn impacts the financial performance. According to Gunday et al (2011) research especially organizational innovation has a key role in supporting innovative performance and leaders should pay attention on supporting innovative attempts to contribute to the financial performance of the company (Gunday, 2011, p. 671-672).

Product innovations are composed of internal and external competencies of the companies and product innovations involve a considerable risk of failure. Product innovations are associated with the creation of something new, to new markets or an improved version of an existing product (Kafetzopoulos & Psomas, 2015, p. 106). A process innovation is a significant improvement in production or in other processes of the company. Process innovations involves change in some part of a process which generates value to the company (OECD, 2005, p. 10). Process innovations are usually improvements which leads to cost reductions, better quality of the products or to otherwise overall improved production processes and performance (Kafetzopoulos & Psomas, 2015, p. 106 - 107). Process and product innovations changes company's competitive position differently. Process innovations are usually involved in improving productivity, which contributes to the company's competitive advantage by giving a chance to sell at a lower price or with higher volume. Product innovations on the other hand brings the company a monopoly position and allow the company to demand higher prices until competitors succeed in imitating the innovation (OECD manual, 2005, p. 17).

Marketing innovation refers to new ways of launching products or offering services to the market. The innovative approach targeting the market is likely to attract new competitors and change the competitive forces. Unlike product innovations, market innovations are not about the newness of the offering but the way they are offered (Wang & Ahmed, 2004, p. 305). Marketing innovation may be a new way of packing, designing, advertising, pricing, or a new way of placing the product in the store to better attract target groups and answer the customer needs to increase the sales. Organizational innovations refer to changes inside the company that improve performance. Reducing administrative costs, improving workplace satisfaction or overall productivity are typical examples of organizational innovations (Kafetzopoulos & Psomas, 2015, p. 107). Gunday et al propose that organizational innovations are about renewing the organizations structures, coordination, and cooperation activities to better support other innovation types.

In other words, organizational innovations are drivers for other innovations (Gunday et al, 2011, p. 664).

2.2 Innovativeness

Innovativeness is the organization's capacity to produce new products, services, processes, and ideas that bring value to the company. Innovativeness is a building block in producing innovations and improving organizations overall performance and competitive advantage (Hult et al, 2004, p.429; Gunday, 2011, p. 671-672; Chatzoglou & Chatzoudes, 2018, p. 51-52). Hult et al (2004) studied the drivers behind innovativeness and how innovativeness affects organizations business performance. Innovativeness leads to outcomes like new or improved products, diversified products or wider range of business activities and these outcomes positively contribute to achieving competitive advantage. Hult et al (2004) propose that market orientation, learning orientation and entrepreneurial orientation of the company are the antecedents to innovativeness. Market-oriented companies acquire information from the market, customers, competitors, and other shareholders and uses the information to adapt its operations to match the market needs (Hult et al, 2004, p. 429-431). According to their research market orientation plays a key role, especially in rapidly changing markets when companies may face the need to modify their products at a fast pace to meet the customer needs. Market-oriented leaders are solidly connected with the business environment and innovativeness can be harnessed to solve actual business problems arising from the market (Hult et al, 2004, p. 436).

Learning orientation is associated with innovativeness because acquiring and processing knowledge refers to the ability to be innovative in the first place (Hult et al, 2004, p.431). Calantone et al (2002) also researched and confirmed the relationship between organizations learning orientation and company innovativeness. Their research suggests that innovation is a learning process and learning appears in the process attempting to gain full understanding about the business environment, customers, competitors, and

technologies. In the light of leadership practices, promoting learning orientation means allocating employee's working hours in gaining competencies and expanding their knowledge also to areas outside the scope of their profession to find new sources of innovative ideas. Calantone et al (2002) propose that the relationship between learning orientation and innovativeness is related to an organization's age and the older the organization is, the stronger the relationship. Learning orientation is composed of commitment to learning, shared vision, open-mindedness, and intra-organizational knowledge sharing. Commitment to learning reflects the state that an organization values and promotes learning in daily work. In case learning is an organizational value it is proposed to be happening. Learning is about acquiring, transforming, and sharing knowledge which is a mechanism to produce innovations. Learning orientation affects the organization's ability to anticipate customer needs and build up opportunities based on the needs and values. Shared vision affects learning orientation by showing a direction of what kind of learning needs to be acquired to carry out the vision. Open-mindedness is related to the acceptance of innovative ideas provided in the organization and willingness to change the routines and renew. Intra-organizational knowledge sharing reflects to the ability to share knowledge between different units and prevent the loss of information through implanting the knowledge to the organization as organizational memory (Calantone et al, 2002, p. 516-517). Entrepreneurial orientation is related to the willingness to innovate, and it is associated with the activities that lead to new entries. Entrepreneurial behavior fosters the creation of new business within an existing business and stimulates the businesses that have become stagnant. The characteristics of entrepreneurial orientation are boldness and a tendency to take risks (Hult et al, 2004, p. 432).

According to Hult et al (2004) research the managerial actions related to market-, learning- and entrepreneurial orientation have a positive emphasis on innovativeness. According to the research learning orientation combined with market orientation increases the understanding of business environment and supports in creating better products. Entrepreneurial orientation in turn, is a major driver for innovativeness, and it can be seen as the trigger to drive innovative activities. Leaders need to focus on building

organizational culture that emphasizes market-, learning- and entrepreneurial orientation to improve the innovativeness of a company (Hult et al, 2004, p. 436- 437).

2.3 Innovation capability

The source of the competitive advantage is firstly based on the company's resources. The resource-based view suggests that a company can gain sustained competitive advantage when it has resources that are valuable, rare, inimitable, and non-substitutable (Barney, 1991, p. 106). Barney defines firm resources as any kind of assets, capabilities, processes, or other feature of a company that enables the company to implement its strategies (Barney, 1991, 101). Teece et al (1997) presents the concept of dynamic capabilities which refers to a company's capability to develop, deploy and protect its competences and resources to gain competitive advantage (Teece et al, 1997, p. 510). The dynamic capabilities approach illustrates how resource-based view fits to changing business environment. Dynamic capabilities are company's capabilities to adapt, build, renew, and rearrange its competences in response to market competition and achieve competitive advantage through rapid innovation (Teece et al, 1997, p. 515). Lahovnik & Breznik (2014) proposes that innovation capability is one of the dynamic capabilities of a company because the capability to innovate is built on company's available resources and capabilities. And furthermore, innovation capability contributes to the level how well companies can adapt to the changes in their environment (Lahovnik & Breznik, 2014, p. 147).

Lawson & Samson defines innovation capability as company's ability to continuously generate knowledge and ideas into valuable innovations. Innovation capability contains the ability to use the key capabilities and resources of the company to stimulate innovation. Lawson and Samson propose that innovation capability is tied to company's main processes and that successful innovation consists of core elements and processes that can be managed and systematized. Managing innovation process is a key to achieving exceptional performance (Lawson & Samson, 2001, p. 378; 380; 384). To become

innovative, organizations need to develop their innovation capability. Innovation capability is an intangible asset of the company and refers to company's ability to produce innovations (Saunila & Ukko, 2012, p. 357).

Kafetzopoulos & Psomas (2015) studied the relationship between innovation capability and company performance. In their research company performance is categorized into three dimensions that form the overall performance of a company. Company performance categories are product quality, operational performance, and financial performance and a company's operational performance is directly affected by innovation activities that improve processes and increase productivity. Their research confirms that by improving the elements affecting operational performance, the company improves the product quality which in turn has an impact on how attractive the product is for customers. Improved attractiveness leads to improved sales and presumably to better financial performance. Innovation activities lack direct effect on financial performance because investing in new technologies, developing processes and work practices causes costs that affect company's profitability. However, innovative activities affect financial performance in the long run and indirectly through improved operational performance and product quality. According to Kafetzopoulos & Psomas (2015) research, enhancing the innovation capability is the key driver to better overall performance which leads to sustainable competitive power. To develop the overall performance, leaders need to take initiative to support the innovation activities in daily operations (Kafetzopoulos & Psomas, 2015, p. 119 - 121).

Wang & Ahmed (2004) defines innovation capability through different dimensions of organizational innovativeness. They propose that an organization's overall innovativeness equals to the overall innovation capability of the organization. They identified that product innovativeness, market innovativeness, process innovativeness, behavioral innovativeness, and strategic innovativeness are the principal areas that forms company's overall innovativeness (Wang & Ahmed, 2004, p. 304). Product innovativeness refers to introducing new and needed products to the market at the right time. Market

innovativeness is closely related to product innovativeness, but market innovativeness refers to the way of how the new product is presented to the market and how the market is exploited. Market innovativeness is based on market research, advertising, and promotion. Process innovativeness therefore is about rearranging and recombining the available resources and capabilities to improve and develop organizations' activities. Process innovativeness is directed for example to production methods and management practices. Behavioral innovativeness refers to individual's, team's or management's commitment to innovative behavior and viewpoint towards change. Behavioral innovativeness is associated with the innovative culture of the organization which in turn serves as a driver to innovative outcomes. Organizations innovative culture supports change and adaptability and represents the manner that the company reacts to new and innovative ideas. Strategic innovativeness is an organization's ability to notice opportunities in markets and try new strategies to change the market positioning. Strategic innovativeness is combining external opportunities with internal capabilities to enhance competitive advantage. Wang & Ahmed's view on organizational innovativeness reflects the overall ability of a company to produce innovative outcomes that is, its innovation capability (Wang & Ahmed, 2004, p. 304-306;311).

2.3.1 Elements of innovation capability

Lawson and Samson (2001) propose in their wide literature review that innovation capability is not a separate construct of a company, but it consists of different elements. According to Lawson & Samson's work successful innovation arises from certain key elements and processes and they present a framework to show how innovation can be systematically stimulated in an organization. The framework consists of seven elements impacting innovation capability and leaders' actions that supports company's capability to innovate. In addition, their framework addresses the relationship between innovation capability and company's overall performance because strong innovation capability indicates higher level of innovation performance which has a positive impact on overall performance on the company level. The seven elements impacting a company's

innovation capability are visualized in the figure below and companies can enhance their innovation capability and overall performance by improving these elements in the company (Lawson & Samson, 2001, p. 378; 388-389).

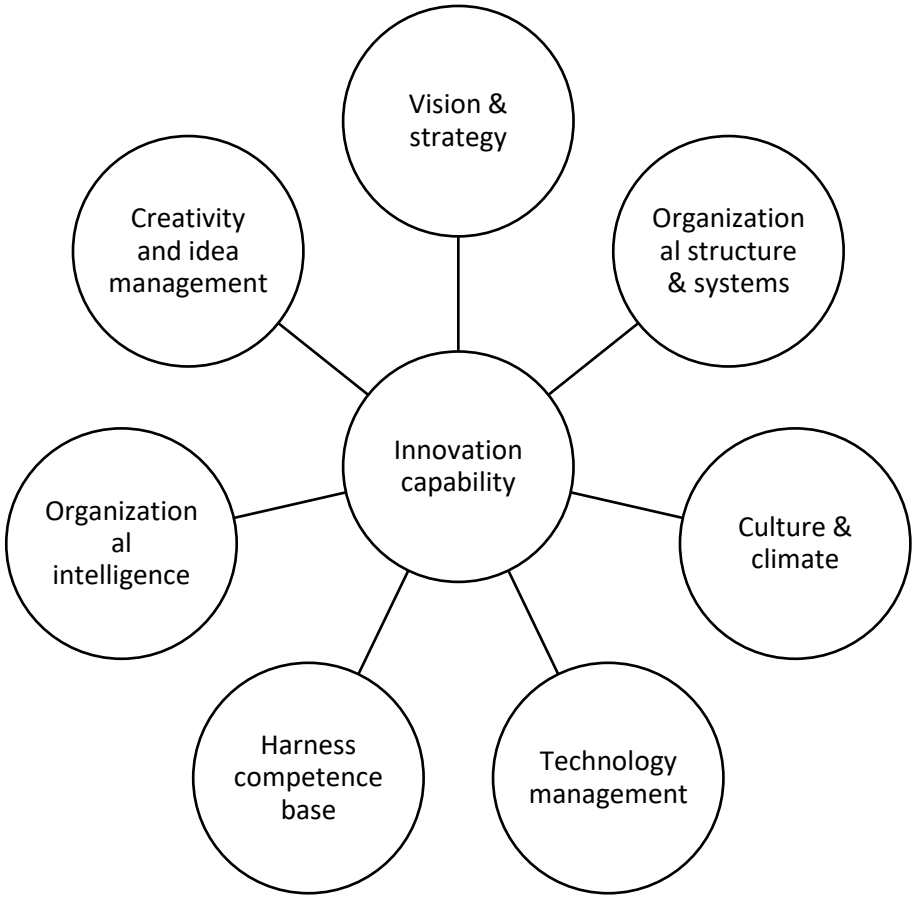

Figure 2. Seven elements of innovation capability. (Modified from Lawson & Samson, 2001, p. 388)

Company's vision and strategy are fundamental building blocks for the innovation capability. Company's strategy sets boundaries to the performance and determines how the company uses available resources. The company vision on the other hand describes the desired state of the company and clear vision across the organization gives a purpose to innovate. A clearly communicated vision sets a challenge to think about new ways of doing things and not only benchmarking from others. Companies adopting an innovation strategy that aims to change the future are likely to most innovative (Lawson & Samson, 2001, p. 389-390).

Organizations structures and systems need to be favorable for innovative behavior and creative ideas to succeed in innovation. In large companies the organizational structure becomes inherently bureaucratic, and a company's performance may be optimized by strict processes. Bureaucracy and perfectly optimized processes are typically unfavorable for innovative and creative ideas. Breaking down the barriers between operations and providing platform for idea sharing are tools to improve the innovative ideas to come up. Company's reward system plays a role in contributing to innovation capability and by using reward systems leaders can stimulate the innovation behavior in individual or in team level. Leader's task is to assess what kind of innovations are currently needed and modify the rewarding to support desired outcomes. Company's immaterial infrastructure, culture, and climate, has influence on company's innovation capability. According to Lawson & Samson tolerance to ambiguity, empowered employees, creative time, and communication builds an appropriate culture and climate for innovations. Innovative organizations tolerate ambiguity and leaders can keep it in manageable level through information management and project control systems. On the other words innovative organizations are not afraid of failure but understands the possibility to it and leaders refers to failure as opportunities to gain experience and grow. Empowering employees and providing time for creativity are parts of organization culture that supports innovation. Often employees do not have time for creative thinking and leaders can support the innovative idea generation by respecting the time used to thinking. Communication to different shareholders is an important channel to promote innovation and learning in the organization. By encouraging interaction with different shareholders leaders support knowledge sharing, open discussion culture, idea generation and idea structuring (Lawson & Samson, 2001, p. 393-395).

The management of technology is a part of innovation capability as today lots of innovations are related to new technologies. It is important for companies to recognize the current technological capabilities and probable future needs to assess the future direction of the company (Lawson & Samson, 2001, p. 395). Lahovnik & Breznik (2014) studied how company's capabilities and resources can be utilized to gain sustain competitive

advantage through technological innovation capability. According to their study technological innovation capability is the most important source of a company's competitive advantage due to the speed that technologies change. Technological innovation capabilities create access to new markets, create value to the customers and technological innovations are more difficult to imitate by competitors (Lahovnik & Breznik, 2014, p. 157-158). Harnessing a company's competence base is related to technology management of the company. Harnessing company's competence base refers to the ability to allocate and utilize the available resources effectively. The effective use of resources leads to an increased number of innovation initiatives which increase the probability of succeeding in innovation (Lawson & Samson, 2001, p. 390).

The element of organizational intelligence refers to knowledge management and learning, primarily about customers and competitors. Organizational intelligence is the company's capability to utilize the available information for company's success. Managing knowledge effectively is important to both increase the potential to produce innovative ideas and to spot and eliminate unprofitable options. In the innovation point of view knowing customer needs and being aware of the competitors is a key to answer customer needs with valuable solutions in the right timing (Lawson & Samson, 2001, p. 391-392). Calantone et al (2002) studied the relationship between learning orientation, company's innovativeness, and performance. Companies committed to learning can improve their innovation capability by using their knowledge of technology, customers, and competitors. By gaining technological competences companies committed to learning are likely to use the technology to create innovations and even technological breakthroughs. By knowing their customers companies can anticipate and understand the customer's needs and respond accordingly. Companies committed to learning may also monitor their competitor's actions and learn from their successes and failures and generate that knowledge in their own benefit (Calantone et al, 2002, p. 517-518). Calantone et al (2002) identified four components of learning orientation that are commitment to learning, shared vision, open-mindedness, and intra-organizational knowledge sharing. Organizational learning can be associated with gathering and developing knowledge which is a

vital feature in innovation process. Supporting learning culture and cross-functional integration inside the organization is one way to improve ability to innovate. Gathering knowledge outside of the immediate scope of an employee's own field is crucial to improve an organization's ability to innovate (Calantone et al, 2002, p. 521-522). Organizational learning is about acquiring knowledge, sharing knowledge, and utilizing the knowledge for the progress of a company. Organizational learning is a process for increasing the knowledge created by employees and converting the knowledge into a part of the organization's knowledge system. Organizational learning improves organizations capability to change, renew and invent new technologies which prevents organizations falling into stagnation. In the other hand, organizational learning supports continuous innovation in organizations (Garcia-Morales et al, 2012, p. 1046). Lin (2007) researched how individual, organizational, and technological factors of a company's knowledge management affect a company's innovation capability. Lin presents a framework for the factors shaping knowledge sharing and confirms the connection to innovation capability. Knowledge sharing at an individual level is about interacting with colleagues helping them perform better or more efficiently. In organizational level knowledge sharing is managing the tacit knowledge in the organization through capturing, organizing, reusing, and transferring the tacit knowledge within the organizational structures so that the knowledge is available for others (Lin, 2007, p. 316).

The seventh element of innovation capability is creativity and idea management. Creativity is the basis of idea generation and innovative thinking, and creativity can be found at all organizational levels. Leaders can promote creativity by encouraging the spirit for continuous improvement and the innovation activities in the company. Lawson & Samson (2001) views creativity as a process of generating ideas (Lawson & Samson, 2001, p. 392). According to Amabile et al (1996) creativity refers to the production of novel ideas. Innovations on the other hand are the outcome of successfully implementing creative ideas and creativity is considered as the source and the first step towards innovation. Traditionally creativity is seen as an individual characteristic of creative people but Amabile et al (1996) proposes that creativity is for everyone, and it can be promoted and

influenced by the social environment (Amabile et al, 1996, p. 11541-1155). Amabile et al (1996) identified that the factors positively influencing creativity in the work environment are encouragement for creativity, giving autonomy, providing resources, and putting on pressure as challenging work tasks. Moreover, they also identified that excessive workload pressure and organizational impediment to creativity block creativity in work environment (Amabile et al, 1996, p.1159). Amabile et al (1996) highlight the importance of organizational characteristics on creativity rather than employee's individual characteristics (Amabile et al, 1996, p.1179-1180).

2.3.2 Components of creativity

According to Amabile (1998) creativity consists of three components: imagination, expertise, motivation. Imagination is the ability to be creative when facing a problem and to the level of how creative the solutions are. Expertise refers to any kind of technical, procedural, or intellectual knowledge that can be utilized when finding solutions to a problem. Motivation is a key component when it comes to creative behavior and especially intrinsic motivation that is followed by inner passion towards the work and not based on external rewards (Amabile, 1998, p. 78). Managerial practices can have a significant impact on influencing creativity. According to Amabile (1998) creativity can be influenced with managerial practices influencing the six elements presented in figure 4.

Figure 3. Managerial practices affecting workplace creativity. (Modified Amabile, 1998, p. 81-84)

According to Amabile (1998) leaders can influence employee creativity by challenging their abilities. It is a challenging task to give assignments that match employee's capabilities to succeed. The assignments need to match the capabilities of an employee but at the same time the assignments need to motivate and challenge the employee. Succeeding in this task requires that leaders have enough information of their employees to find the balance. Secondly, leaders can affect the creativity by giving freedom. Freedom refers to employee's autonomy to find the most suitable way of working to fill the assignment in hand. For managerial practices freedom in task accomplishment means that leaders need to clarify what is expected and then trust employees to find the way of achieving the goal. Giving employees autonomy to choose the process or way of working will encourage individuals to approach the problem through their expertise and leaders should try to avoid giving too strict directions. Leaders affect employee creativity by

allocating time and money to it. All innovative ideas may not see the daylight if working days does not allow time to stop, think and toy with the ideas developed during the day. Work-group features refers to team building practices in an organization. To create a creative team, one must combine people with diverse backgrounds that have different expertise and approach to work. By building diverse teams, organizations can promote idea generation and innovation process as the subject is viewed through different lenses. To promote innovative outcomes, team members need to have three features; excitement over the goal, willingness to help each other during setbacks and respect over other team members' knowledge. One way to kill creativity is to build up too homogenous teams. Supervisory encouragement means how well supervisors are engaged with creativity. In daily work such encouragement is a positive and open-minded attitude to creative ideas and in reverse the mind-set when an idea does not succeed. Leaders' actions are important in building a creative organization, but also organizational support is needed. In this means organizational support refers to the organization's infrastructure including processes and procedures. Leaders can enhance the creativity by utilizing organizational processes like encouraging knowledge sharing processes or using rewarding procedures (Amabile, 1998, p. 81-84).

3 Leadership style's impact on innovation capability

Mumford et al (2002) have reviewed the effects leaders have on creativity and innovation and found out that certain leader characteristics influence the encouragement to creativity and innovation. According to Mumford et al (2002) review the leaders who have technical and professional expertise over the substance and are able to creative thinking encourage to creativity and innovation through their tangible contribution to the work. Besides the characteristics, leaders' behavior including support, involvement and intellectual stimulation affects the probability of the followers to reveal their creative capacity (Mumford et al, 2002, p. 737-738). Chatzoglou et al (2018) on the other hand studied the antecedents of innovation and their research indicates that organizations knowledge management system, intellectual capital, organizational capabilities, and organizational culture significantly influences the probability to innovation and leaders can improve the innovation capability by developing these antecedents of innovation. The identified actions to support innovation initiatives are presented in the following table and to effectively promote innovation these procedures should the enhanced simultaneously (Chatzoglou et al, 2018, p. 58-59).

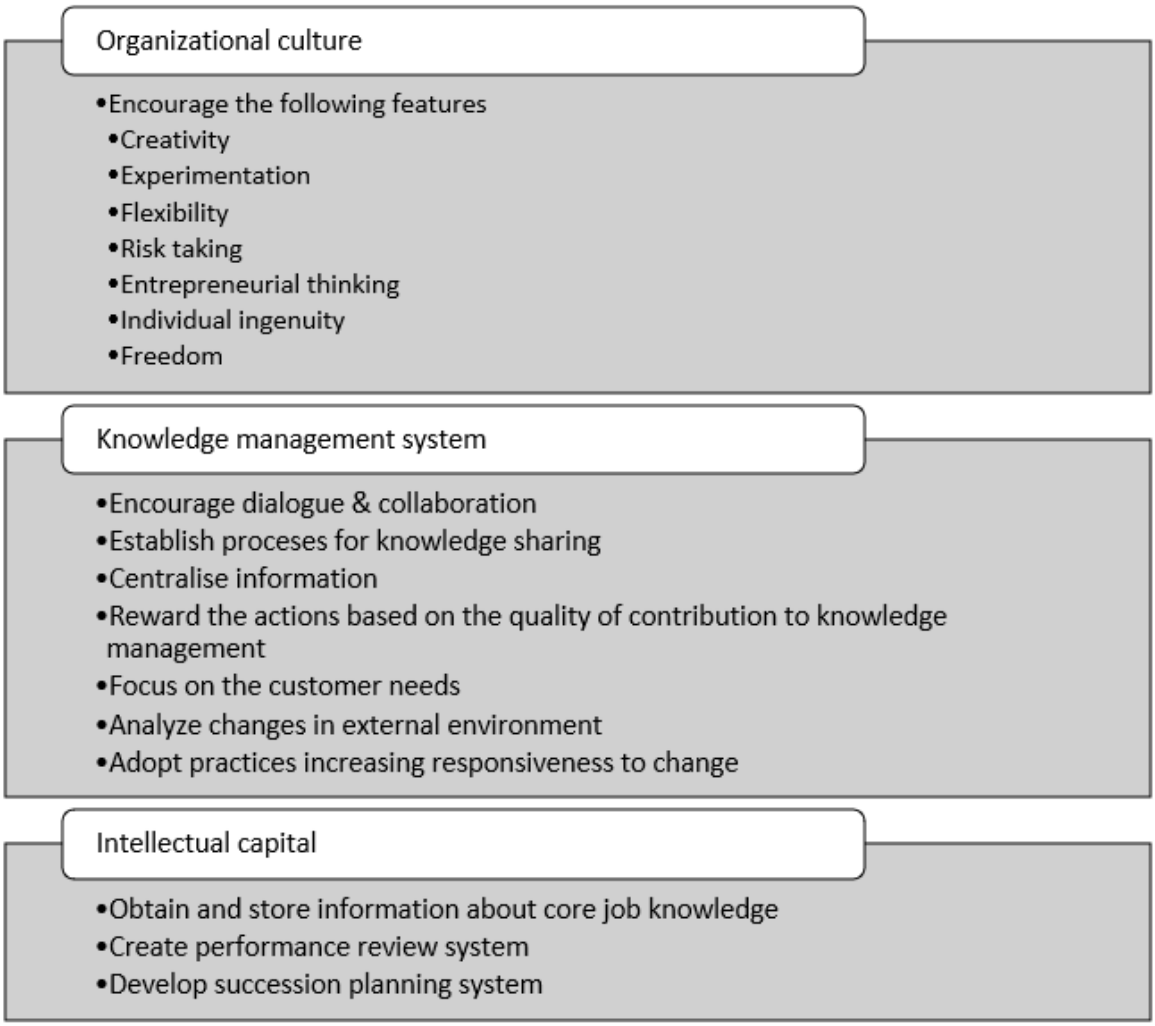

Figure 4. Managerial actions to improve organizational innovation and competitive advantage. (Chatzoglou & Chatzoudes, 2018, p. 59)

According to their research Chatzoglou et al (2018) propose that organizational culture has the most significant impact on enhancing innovation. Organization culture itself is not an antecedent for innovation but it works as a facilitator for the other antecedents of innovation. Leaders can influence the innovative organization culture by promoting culture that encourages creativity and experimentation, which is flexible for changes, promotes freedom, individual ingenuity, and entrepreneurial thinking. Promoting these characteristics of an organization culture will help the organization to response to the needs of changing environment (Chatzoglou & Chatzoudes, 2018, p. 57). Leaders can

contribute to innovation by creating knowledge management systems to support the idea generation and innovativeness. To support innovation, leaders can encourage dialogue and collaboration, establish, and ensure processes for knowledge sharing and centralize information so the information is available. Leaders can manage the innovation process through knowledge management by focusing on customer needs, analyzing changes in the business environment, and keeping up with the changes. To keep up with continuous innovation, leaders need to pay attention to the intellectual capital of the company. Intellectual capital of the company can be improved by acquiring and storing knowledge of core job information, using rewarding to support innovative behavior, and supporting activities (Chatzoglou & Chatzoudes, 2018, p. 58-59)

De Jong & Den Hartog (2007) studied different leadership behaviors effects on employee's innovative behavior on individual level and they found thirteen leader behaviors that affects follower's innovative behavior during idea generation or application phase. Their paper proposes that there are twelve behaviors supporting idea generation phase or application phase or both and one behavior, monitoring, was found to have negative relationship to innovative behavior (De Jong & Den Hartog, 2007, p. 49).

Figure 5. Leaders' behavior enhancing follower's innovative behavior. (De Jong & Den Hartog, 2007, p.49)

Leaders acting as role-models for creative behavior are likely to feed the follower's innovative behavior in both idea generation phase and in application phase. Followers learn

what creativity is and are likely to imitate the leader and show innovative behavior. Providing an overarching vision affects innovative behavior in the idea generation phase by indicating what kind of ideas are needed and where to focus the creative and innovative behavior. Providing a shared vision also supports the application phase of the innovation because the idea is more easily convinced to be valuable, and it supports the process. Consultation on the other hand refers to the participative method of decision making which has been confirmed to have a positive relationship to employee's innovative behavior in previous literature. Consultation in decision making enhances employee's motivation to generate ideas but also supports a successful implementation of the innovation (De Jong & Den Hartog, 2007, p. 50-52). Delegating work assignments affects employee's idea generation through enhanced sense of autonomy and freedom. Employee's innovative behavior is confirmed to be improved when employees were given autonomy and freedom to explore, discuss and challenge the ideas. Consistent support for innovation and recognition of innovative attempts supports idea generation but also the application phase. These behaviors enhance innovative behavior when it is consistent, and leader is showing support and interest on the ideas regardless of the ideas or attempts are successful or not. According to De Jong & Den Hartog research intellectual stimulation affects only idea generation phase. Intellectual stimulation refers to attempts to think about problems and solutions differently than before. Leaders can stimulate the idea generation by intellectual stimulation by setting a goal for creativity or simply emphasizing the importance of creativity. Another leader behavior recognized to stimulate innovative behavior in idea generation phase is to stimulate knowledge diffusion. Knowledge is shared during interaction and leaders who provide formal or informal platforms for interacting are providing ingredients for employee's idea generation and innovative behavior. Task assignment feeds idea generation when the assignment matches the skills, abilities, and interests of the employee. This kind of assignment supports employee's intrinsic motivation and enhances the idea generation. Organizing feedback is fruitful, especially in the application phase of innovation. Organizing feedback from different stakeholders increases the number of additional improvement ideas and supports the successful implementation. Material rewards are proposed to trigger

the application phase of innovation but combined with support and recognition. Providing resources affect innovative behavior during the application phase as it expresses that innovative ideas are appreciated and simultaneously provides support for the innovative behavior (De Jong & Den Hartog, 2007, p. 50-56).

Lee et al (2020) formed a wide review of different leadership variables affecting individual's creativity and innovative performance. Lee et al (2020) categorized leadership variables into five groups based on the theories behind the leadership styles: the full-range model, moral leadership, motivational leadership, relational leadership, and negative leadership. Their paper examines the relationship between different leadership variables and creativity and innovation separately (Lee et al, 2020, p. 2)

Table 1. Theoretically homogenous categories of leadership styles.

The full-range leadership	Transformational leadership
	Transactional leadership
Moral leadership	Authentic leadership
	Servant leadership
	Ethical leadership
	Humble leadership
Motivational leadership	Empowering
	Entrepreneurial leadership
Relational leadership	LMX theory
	Supportive leadership
	Benevolent leadership
Negative leadership	Destructive leadership
	Authoritarian leadership

The leadership styles grouped to negative leadership are less associated with creativity compared to other styles on the list which are also called positive leadership. There are

different positive leadership styles to choose to support creativity or to support innovative behavior. In the light of leadership practices, leaders should try to customize their behavior depending on whether they are trying to affect innovation or creativity (Lee, 2020, p. 18). According to Lee et al (2020) research the authentic and entrepreneurial leadership style have the highest association with follower's individual creativity. On the other hand, supportive, empowering and servant leadership have the highest association with individual innovation. Negative leadership is less associated with creativity than the positive leadership styles (Lee, 2020, p.15).

Lee et al (2020) suggest that leaders who seeks to have a positive influence on follower's creativity should focus on building a close relationship with high degree of trust and provide the time and autonomy to produce innovative ideas rather than try to buy the creativity with using contingent reward. Moreover, leaders who aims to positively influence individual innovation should be actively role-modeling innovative behavior, provide autonomy, goal -directed support, needed resources, and support the idea generation by lending their social networks. One of the most important implications provided by Lee et al (2020) is the notion that contingent rewards are the most effective way to promote employee innovation (Lee, 2020, p. 16; 18). The characteristics and underlying mechanisms affecting innovation and creativity of full range model-, moral-, motivational- and relational leadership styles are presented in the following sub-chapters. The group for negative leadership style is left out of the scope due negative leadership associated more with undesirable effect in the organization and it have weaker effect on innovation and creativity than the other styles interpreted as positive (Lee, 2020, p. 5)

3.1 Full range -leadership

The full range -leadership model consists of transformational leadership style and transactional leadership style. Transformational leadership is strongly associated with creativity and innovation (Lee, 2020; Jung, 2003; Gumuluoglu & Ilsev, 2009). Transformational leadership style contributes to the follower's creativity and innovativeness by promoting

open mindset, empowerment to experiment and active part-taking to problem -solving. The mechanisms to promote such activities in the company are to motivate and inspire the follower's to do their best and stimulate divergent thinking, questioning assumptions and risk taking. Unlike transformational leadership which focuses more on enhancing follower's intrinsic motivation, transactional leadership focuses on achievement -related exchange i.e. contingent reward and management by exception. Transactional leaders use rewards and incentives to motivate and intervenes the work only when necessary (Lee, 2020, p. 3).

Transformational leadership style is formed with four factors that are charismatic leadership, inspirational leadership, individualized consideration, and intellectual stimulation. According to Bass (1985), leaders with the mentioned characteristic are more satisfying to work for than leaders using transactional leadership methods to achieve goals (Bass, 1985, p. 33). Charismatic leaders attract enthusiasm in the followers and can push the followers to perform better than excepted. Charismatic leaders awake trust in the followers and followers believe they can overcome anything. Inspirational leadership is about affecting follower's motivation by inspiring and encouraging them emotionally. Transformational leaders use individualized consideration to give followers assignments that meet their abilities and interests but also are beneficial for the company. Individual consideration requires building a relationship between the leader and the follower which helps to meet follower's unique needs. Intellectual stimulation encourages followers to think creatively or have a fresh viewpoint to the assignments (Bass, 1985, p.34-37).

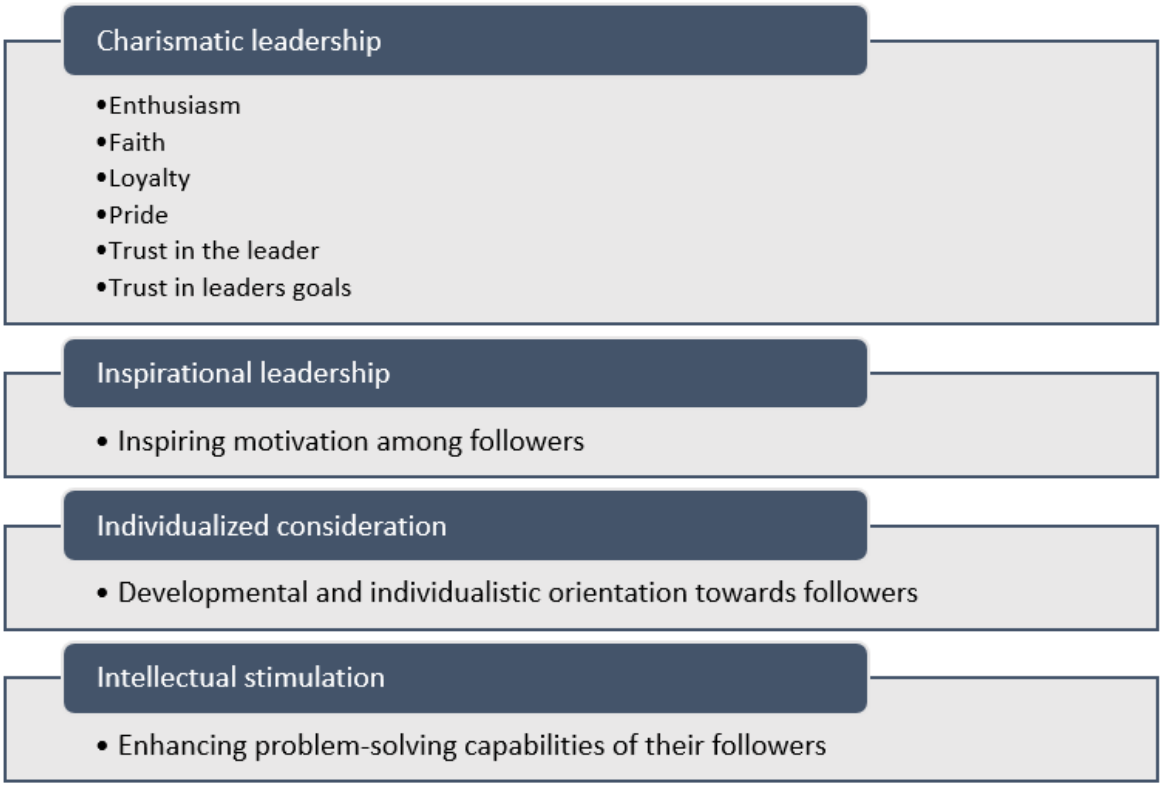

Figure 6. Characteristics of transformational leaders. (Modified, Bass, B.M., 1985, p. 33).

Jung (2003) confirmed the positive effect of transformational leadership on creativity and innovation through empowerment and support for innovation. The underlying mechanism according to Jung's research is building an organizational climate that empowers followers and provides support for innovation (Jung, 2003, p. 537-539). According to Jung (2001) organizations can reinforce employee's creative behavior and enhance innovativeness by actively training transformational leadership skills and practices to company leaders (Jung, 2001, p. 191-193). Gumusluoglu & Ilsev (2009) also studied and confirmed the positive effect of transformational leaders influence on creativity and innovation. They found out that transformational leadership style has a positive effect on followers' intrinsic motivation, psychological empowerment, and support for innovation, but only psychological empowerment has significant positive effect on creativity. From the innovation point of view transformational leadership style including inspirational motivation and intellectual stimulation activities positively influences both the tendency

to innovate and the market success of innovations (Gumusluoglu & Ilsev, 2009, p. 467-470).

Si & Wei (2012) studied how organizations empowerment climate combined with transformational or transactional leadership practices affects employee's creative performance. Their research confirms that transformational leadership practice and team empowerment climate has a strong positive impact on employee's creative performance and in turn transactional leadership practices alone has a negative effect on employee's creative performance. However, their research reveals that transactional leadership style impacts positively on creative performance if the team empowerment climate is strong. In other words, team empowerment climate has strong impact on employee's creative performance regardless the leadership style (Si & Wei, 2012, p**.** 310-313). Empowerment is an intangible concept and in the organizational context it is shaped by values, attitudes and behaviors and it is about giving employees power to participate and involve for example in decision making. Randolph (1995) researched empowerment in organizations by observing organizations transition journeys to empowerment. His research recognized three main actions that forms organizations empowerment climate (Randolph, 1995, p. 19).

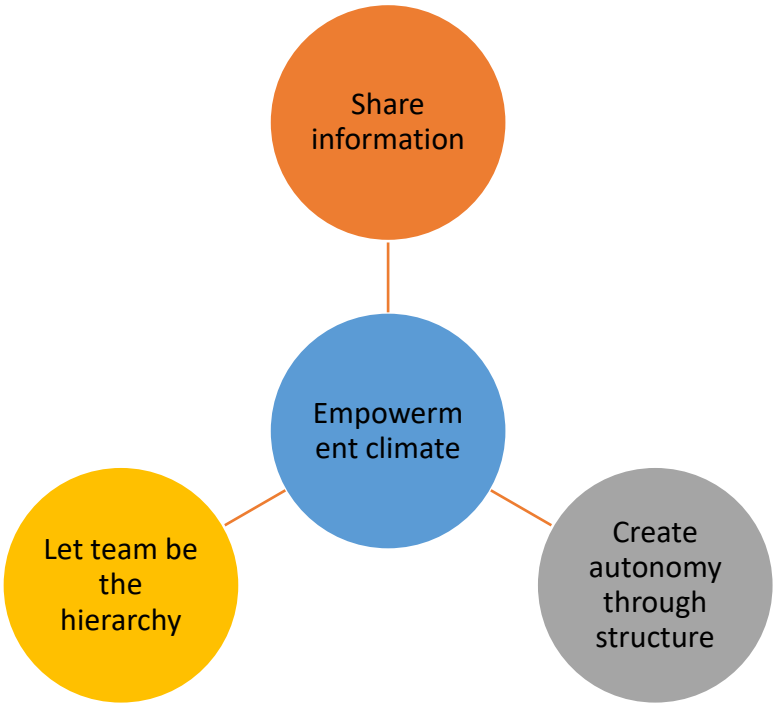

Figure 7. Keys to organizational empowerment climate. (Modified from Randolph, 1995, p. 19)

According to Randolph (1995) information sharing is the first step to empowerment in an organization. Sharing information about the company's financial situation helps employees to understand how their actions affect the company's performance. Understanding the influence of their actions, employees are more engaged to the company and according to Randolph (1995) they start to produce more ideas to improve performance. From the leadership point of view information sharing is related the process of dealing with mistakes and risk taking, setting performance goals, and sharing all the information, not just pieces of it. Trust is built by sharing information which leads to an organizational climate where individuals have courage to propose and try innovative ideas. Trust is also built by sharing information about failed experiences to learning purposes and growth not to find who is guilty of the failure. Information sharing is key element in setting performance goals at an individual level. When leaders share appropriate information about a company's performance it is convenient to tie employee's personal performance goals to match the business activities. The reason information sharing is blocked can be due to the fear of losing control over employees. Fear of losing control

will be overcome by empowering leaders to trust that as the followers grow in their roles, also leaders can grow in their roles (Randolph, 1995, p. 22-23). The second step in creating an empowerment climate in an organization is creating autonomy and using structures to do it. In the beginning of building the empowerment culture leaders need to show the way of working and explain the parameters. Explaining and clearing the company's vision is a key element in creating an empowered climate to company. When employees know the goal and how their work is related to the big picture, they feel that the work is meaningful and are willing to achieve the company vision (Randolph, 1995, p. 25). The third step to improve empowerment climate is to participate employees to decision making process and involve them taking responsibility of the decisions. On the other words, abandoning the old hierarchy in the organization and letting go of the control (Randolph, 1995, p. 27-29).

Competent innovation leaders are valuable assets for organizations as they can promote creativity and innovative behavior in the organization and direct the process of generating useful ideas into value creating innovations. Previous research has recognized certain characteristics that are common for proficient innovation leaders. Innovation leaders are typically agile, able to create value, understand and implement an organization's vision, persistent, have excellent interaction skills, build up networks, use data and knowledge to improve the work. Innovative leaders also understand the value of cross-functional teamwork can utilize the diversification for the company's benefit (Davis, 2019, p. 69-73). Even though diverse teams are studied to bring value to innovative behavior, according to research cognitively diverse teams may face conflicts related to relationships. Chen et al (2019) studied leaders' role in managing cognitive diversified teams and found out that perceived support for innovation strengthen the positive impact, weaken the negative impact of diversification, and contribute to the innovative work behavior (Chen et al, 2019, p.677).

3.2 Moral, motivational, and relational leadership

Authentic, servant, ethical and humble leadership styles form the moral leadership -style and they are all forms of positive leadership. Authentic leadership represents a leadership style including open and transparent behavior which in high level context means acting as one's real self, not a copy. Authentic leaders are capable to show their true colors and share information about their values and beliefs (Lee et al, 2020, p.3). Cerne et al (2013) groups the characteristics of authentic leadership into self-awareness, self-regulation, and positive modeling. Self-awareness refers to how fundamentally leaders know themselves including their values and the true motives and goals, and it is associated with leader's self-confidence. Good self-awareness and strong self -confidence are affecting follower's creativity through the independence shown by the leader. Leader's self-awareness is also affecting the positive modeling which in this context means employee's process of personal identification with the leader. Positive modeling is based on the leader's role-modeling and high-quality relationship with the followers will influence the followers to show creative performance. Authentic leaders use positive psychology to affect the follower's self-esteem, trust, hope, resiliency, and optimism which are the components to support trying new things and not being afraid of failure (Cerne et al, 2013, p. 65-67). Cerne et al (2013) found out that if leader's behavior and actions are assessed authentic it influences follower's creativity and innovation and that is why leaders should focus on building authentic relationships with the followers (Cerne et al, 2013, p. 79).

Ethical leadership refers to the leaders attempts to demonstrate appropriate conduct by role -modeling. Ethical leaders act like moral leaders, and they promote moral conduct within their followers through communication. Ethical leaders demonstrate fairness and honesty within their relationships. Ethical leaders are credible role-models, and they use rewarding to promote the ethical behavior in the organization (Lemoine et al, 2019, p.150-151). Humble leadership is shaped by humility and the leaders shows appreciation towards other's work and strengths. Ethical and humble leaders are both positively influencing follower's creativity and innovation by showing behavior that indicates their

humanity like being self-aware and acknowledging their own mistakes or limitations but on the other hand showing openness towards other's inputs (Lee, 2020, p.3).

Characteristics for servant leadership is to promote integrating personal life, work, family, and community together. (Lee, 2020, p.3). Servant leaders show ethical behavior as well as ethical leaders and helping others is in the core of their leadership. Servant leaders uses empowering tools and put other people first and help them to grow and succeed (Lemoine et al, 2019, p.151). The effects of leadership styles forming moral leadership - group are usually based on the social learning and social exchange theories. The unifying factor for the moral leadership styles having a strong effect on creativity is that the leaders develop a genuine relationship with the followers by using role-modeling, coaching, participative decision -making, showing concern and transparency in actions (Lee, 2020, p.3).

Entrepreneurial and empowering leadership styles forms a group of motivational leadership. Entrepreneurial leaders lead the way to innovative behavior by inspiring and acting as role- models (Lee, 2020, p.3). Newman et al (2018) explored the effects of entrepreneurial leadership on employee's creative self-efficacy and innovative behavior. Their research indicates that showing entrepreneurial leadership style better encourages innovative behavior in work rather than showing transformational leadership practice (Newman et al, 2018, p. 6). Entrepreneurial leaders contribute to follower's creativity and innovativeness by role-modeling entrepreneurial behavior, encouraging to entrepreneurial activity and by providing opportunities to be entrepreneurial (Lee, 2020, p. 3-4).

Empowering leaders on the other hand support innovative behavior and creativity by creating autonomy to do the work tasks and encouraging self-directed work. The methods to such empowering activities are coaching, sharing information, and simply asking for inputs (Lee, 2020, p.3). Kim et al (2018) studied follower's responses on empowering leadership practices and their research confirmed that empowering leaders positively influence creativity and innovative behavior. Empowering leaders create strong

relationship with the followers, they show concern and support the followers with coaching and encourages to learning and development through role-modeling (Kim et al, 2018, p.267).

Leader-member- exchange -theory (LMX), supportive leadership and benevolent leadership combined forms the group of relational leadership. Supportive leaders literary provide support for innovation and creativity by providing access to resources, assistance and they encourage the follower's when they face issues. Supportive leaders build trust on follower's own capabilities and increase the follower's interest at work. (Lee 2020, p. 4).

LMX theory is based on reciprocity in relationship between follower and a leader. Followers are like to show creativity and innovative behavior in exchange for leader's support, trust, and other resources. Trust and support provided by the leader indicates higher level of autonomy and possibility to participate to decision-making which are positive building blocks for creativity and innovation (Lee 2020, p. 4). LMX- leadership is easily mixed with transactional and transformational leadership because of its nature that is based on exchange. However, LMX-leadership is rather a combination of both transactional and transformational leadership because the social exchange aspect changes from transactional to transformational in time (Graen & Uhl-Bien, 1995, p. 238).

Benevolent leadership is based on positive exchange between leader and follower and benevolent leaders also emphasize the holistic care over the followers. Benevolent leaders have a positive influence in creativity and innovation because the leaders can make the follower's feel valuable (Lee 2020, p. 4). Wang et al (2009) studied the impact of benevolent leadership on creativity and found out that benevolent leadership has positive impact on creativity, but the impact is dependent on the context. According to Wang et al (2009) research benevolent leadership is effective when followers have a strong creative role identity or when the level of autonomy experienced is high (Wang et al, 2009, p. 116). Benevolent leaders create a feeling of obligation towards the role

expectations of the follower which in turn can make the follower to execute leader's ideas without challenging the assumptions. Following leader's instructions blindly will more like result in decreased creativity because followers do not try to suggest any alternatives (Wang et al, 2009, p. 108).

4 Methodology

The empirical framework of this thesis is presented in this chapter. Firstly, the methodological approach chosen for this research and the case company are presented. Secondly the chosen methods and process for data collection, sample and data analysis are presented. The validity and reliability of this research is assessed and discussed in chapter 6.

4.1 Research approach

Traditionally, the methodological approaches to choose are qualitative and quantitative. Quantitative research is usually based on existing theory and uses numerous data to evaluate different hypotheses. Qualitative research tradition on the other hand use human as an instrument to gather knowledge and builds an understanding through interpretation (Hirsjärvi et al, 1997, p. 136; 160). These two research approaches are traditionally seen in contrast to each other but in today's method literature the two approaches are seen more as complementary (Tuomi & Sarajärvi, 2002, p. 66; Hirsjärvi et al, 1997, p. 131-132).

The research approach of this study is qualitative because this research aims to explore the research subject in detail and the goal for this research is to build an understanding of a complex phenomenon rather than test or confirm existing truths (Hirsjärvi et al, 1997, p. 156). In qualitative research the researcher observes the research subject based on researchers own empirical experience. Researchers own perceptions of the research area, used research methods and the meanings researcher gives to the subject affects the results of the study (Tuomi & Sarajärvi, 2002, p. 19).

This research is a part of the phenomenological-hermeneutic research tradition. Phenomenological approach focuses on how individuals understand and experience the meanings of their experiences which is the target of phenomenological research. The

hermeneutical approach is linked to phenomenological approach through the need for interpretation. Hermeneutics means the theory of understanding and interpretation which is based on the idea that understanding is always interpretation which is built on the previous understanding of the subject. The aim of phenomenological-hermeneutic research is to conceptualize the researched phenomenon, that is, the meaning of the experience. The phenomenon may be known, and imperceptible, but phenomenological-hermeneutic research approach makes it known (Tuomi & Sarajärvi, 2002, p. 33-35). Phenomenology studies the nature and meaning of things. In this research context phenomenology appears through the interest in interviewee's experiences of leading innovation capability. The main point is not to gather data about what innovation capability is but rather to synthesize participants' collective experience of innovation capability and leadership (Saldana et al, 2011, p. 8).

4.2 Case company

This research focuses on the leaders of a large Finnish technology company that operates as a contract manufacturer and provides development and design services. Continuous improvement and innovativeness are in the core of the company and innovation is tied to the company's vision and strategy. The company has recognized the need for innovation to gain competitive advantage in the industry. There is a need for continuous improvement through innovation to enhance current processes and products, and furthermore, there is a need for new product innovation to expand the business.

According to the knowledge of the researcher, the innovation capability, or the impact of leadership practices on innovation capability have not previously been studied in the company. The main objective of this research is to create and understanding of how company leaders contribute to the company's innovation capability and the secondary object is to understand the elements of target company's innovation capability. An understanding of different leadership styles influencing company's innovation capability

can help the company to enhance the elements of innovation capability that are under the influence of leadership.

The case company wish to remain anonyme because the interviews include sensitive information about the company's processes and capabilities. Furthermore, the interviewees remain anonymous to ensure open and trustworthy discussions with the interviewees. The level of openness and how honestly the interviewees are willing to answer the interview questions is in relation with the level of reliability of this research.

4.3 Data collection

There are many methods to gather research data for qualitative research, but interviews are traditionally the main data collection method for qualitative research. Qualitative research approach studies humans so it is a natural choice to ask the questions directly from people using interviews (Hirsjärvi et al, 1997, p. 199).

Due to the different approach versus quantitative research approach the amount of the data collected is not a determinant factor to qualified research. In qualitative research the significant factor in research data analysis is the validity and depth of interpretations of the subject rather than finding statistical generalizations. Therefore, it is important that the interviewees are selected carefully so that they are experts of the research area, or they have a lot of experiences to share (Tuomi & Sarajärvi, 2002, p. 87-88). Data collection method for this research is semi-structured interview which will be presented in this chapter after introducing the data collection sample.

4.3.1 Data collection sample

The starting point for the semi-structured interview is that the interviewees have experienced the researched matter or are specialists in the research area. The purpose of this

research is to establish an understanding of how the company leaders contributes to the company's innovation capability and how they understand innovation capability, so interviewing the company leaders is a natural way to explore these questions. This research focuses on company leaders which is a specific subset of a population so choosing the interviewees among them is a natural approach. To get a representative sample of the population the interviewees were chosen carefully. There is no consensus on what a sufficient number of interviews is. Few researchers propose that ten to twenty participants are needed to ensure credible and trustworthy findings whereas some researchers would be satisfied with three to six people. Some researchers propose that there is enough research material when interviews start to repeat themselves and researcher does not get any new or relevant information (Saldana et al, 2011, p. 33-34).

The interviewees for the research were selected among the case company's senior manager's or equivalent roles. All the interviewees have a long history in the company, and they have recently been or are in a leadership position at the time of the interviews. The leaders for the interviews were selected from different functions inside the case company. All together ten (10) possible interviewees were first contacted by email with an interview request to support the feeling that participation is optional. Eight interviewees accepted the interview request and acceptance was considered as the consent to participate. The participants were contacted again with a meeting request and interviews were conducted during December 2022 as teams-meetings and meetings were recorded. The need to record the interviews was clearly stated in the meeting request and it was confirmed once more in the beginning of the interview before the recording was started.

Table 2. Sample characteristics.

Interviewee	**Role, career length**	**Date**	**Duration**	**Type of interview**	**Language**
H1	Fellow, 20 years	14.12.2022	1:10:33	Teams	Finnish
H2	Fellow, 26 years	14.12.2022	1:14:07	Teams	Finnish

Inter-viewee	Role, career length	Date	Duration	Type of in-terview	Language
H3	General Manager, 19 years	15.12.2022	1:01:42	Teams	Finnish
H4	Senior Manager, 26 years	16.12.2022	0:51:32	Teams	Finnish
H5	Senior Manager, 10 years	19.12.2022	00:58:14	Teams	Finnish
H6	Senior Manager, 18 years	22.12.22	1:25:12	Teams	Finnish
H7	Senior Manager, 18 years	22.12.2022	0:53:31	Teams	Finnish
H8	Director, 15 years	27.12.2022	1:03:09	Teams	Finnish

The ensure the interviewee's anonymity the personal information of the interviewee's is not presented in this thesis. The names and roles in the company were recorded and used in interview transcriptions but the names were faded during the reducing -phase of the data. The names or roles of the interviewees or the case company are not visible in this research and after the research is completed the recordings and transcriptions will be destroyed to protect the anonymity of the interviewees. Recorded interviews were transcribed into text format by using MS office tools. The duration of the interviews was from 50min to 90min each and the same themes were talked through with all the interviewees. After transcription, the research material consists of 133 pages with altogether 60 718 words. According to researcher's assessment the saturation point was achieved so we can expect the sample to be comprehensive.

The interviews were conducted in Finnish and the parts that are referred in this thesis are translated into English by the researcher. The researcher is not a native English speaker but is convinced to be able to interpret and translate the experiences of the

interviewees in English based on the excellent English skills generated during studies and during working in an international organization.

4.3.2 Semi- structured interview

The data collection method in this study is interview and more specifically semi-structured interview which is methodologically placed between structured and unstructured interview methods. Semi-structured interview differs from unstructured interview because semi-structured interviews proceed according to predefined themes and the interview questions are the same to all the interviewees. Semi-structured interview differs from structured interview due to the lack of strict order and form of the research question. Semi-structured interview method allows the interviewees to be heard and lets their viewpoints stand out. The chosen interview method highlights the interviewee's interpretations of the subject and the meaning they give to it. The semi-structured interview method respects the consensus that meaning arises from interaction (Hirsjärvi &Hurme, 2001, p. 47-48).

The benefit of semi-structured interview as a method is flexibility. This method allows the researcher to modify the order of themes and gives a possibility to explain or reformat the questions if necessary. A semi-structured interview allows researcher to direct the data collection during the interview to bring out even more profound answers. During the interview researcher is in linguistic interaction with the interviewee and the interviewee may give more about the subject that the researcher has not been able to predict (Hirsjärvi et al, 1997, p. 200; Hirsjärvi & Hurme, 2001, p. 34-36). Semi-structured method is chosen due to the nature of the study. This study aims to deepen the understanding of the subject, the person is seen as an active participant and predictably interviews will bring out multifaceted responses.

A basic assumption for semi-structured interview method is that it can be utilized to research all the individual experiences and beliefs. Semi-structured interview's structure

consists of specific predefined themes. The themes are the same for all the interviewees and the interviewer can present supportive and additional questions to proceed with the interview. During the interview, the interviewees describe their viewpoint of the themes (Hirsjärvi & Hurme, 2001, p. 48). The themes selected for this research are based on the theoretical background of this research and are based on the previous knowledge of the subject. The themes for the interviews must be wide enough to reveal the complexity of the phenomena and how the interviewee is experiencing the themes at the time of the interviews (Hirsjärvi & Hurme, 2001, p. 66-67).

Themes for the semi-structured interviews are the following:

- Innovativeness
- Innovation capability
- Leading innovation capability

With the first theme (Appendix 1. Interview letter and questionnaire) the researcher attempts to find out what is the interviewees assumption of what innovativeness is on individual and organizational level. The first theme also aims to cover the main methods used to contribute to innovativeness in the company and define the difference between actual innovation capability and the innovativeness the organization itself or organization members possesses. The second theme is chosen to define what is innovation capability and what are the building blocks to it. The second theme also covers the items that build the target company's innovation capability from the leaders' point of view. The third theme reflects the company leaders' contribution to the innovation capability and is the closest to answer the main research question of this thesis. The third theme also covers the meaning that company leaders give to leading innovation capability.

The challenge with semi-structured interview method is that it is assumed that the interviewees understand the theoretical concepts the same way as they are defined in the theoretical framework of the study. Having a consensus over the themes is the starting point of semi-structured interview method and if the consensus is missing, researcher

cannot assume that the answers are related to the themes (Tuomi & Sarajärvi, 2002, p. 78-79). This challenge was considered, and the interviews included questions related to defining the themes.

The aim of the interviews is to collect as much information on the research subject as possible and therefore it is justified to hand the interview questions and themes to the interviewees beforehand. It is also ethically justified to give the interviewee's information about the interview themes beforehand to prevent interviewees from attending an interview of a subject they are not familiar with (Tuomi & Sarajärvi, 2002, p. 75). To ensure enough research data the researcher can utilize saturation as an indicator to point out when there is enough data to start the analysis. The research data is considered saturated when new interviews do not bring new information or viewpoints to the research subject. Based on method literature around fifteen responses would produce saturated data, but the challenge is, that the experience of saturation may vary. A thumb rule for using saturation as the indicator for the adequacy of the research data is that data is saturated when responses constantly repeat oneself of the matters that are researched on the first place (Tuomi & Sarajärvi, 2002, p. 89-90).

4.4 Data analysis

Typical analysis method for qualitative research is content analysis. The goal of content analysis is to form a compact and generalized description of the subject in hand. Content analysis is used to organize the collected data and it can be used to present the results, but it is not an adequate method to establish conclusions of the data (Tuomi & Sarajärvi, 2002, p. 93; 105). The analysis method selected for this research too is content analysis so that the large amount of data can be organized and interpreted.

Traditionally there are three forms of content analysis that are inductive (data-based analysis), deductive (theory-based) and abductive (theory -related) which is methodologically between inductive and deductive reasoning (Tuomi & Sarajärvi, 2002, p. 96-97).

The content analysis approach for this research is abductive because even if the presented results are based on the collected data, the theoretical framework of this thesis steers the analysis because the themes used for data collection and researchers understanding of the research subject are based on the theoretical framework.
The purpose of the analysis is to create information value by converting incoherent research material into explicit and coherent format that can be used to make conclusions about the research subject. The content analysis is used to organize the data so that it can be used to make reliable conclusions. Processing qualitative research data is based on logical reasoning of the data and analysis is present in all the phases of qualitative research process (Tuomi & Sarajärvi, 2002, p. 110).

Content analysis typically includes three phases that are reducing, grouping and abstraction and these process steps were followed in this research too. Reduction phase is about simplifying the research material by cutting off material that is not essential for the research. What is essential for the research is defined in the research problem. In reduction phase the researcher raises expressions from the material that answers the research questions, and those transcriptions are labeled. During the next phase, grouping, the chosen transcriptions are processed, and researcher is looking for similarities and differences and those are grouped accordingly. Preliminary descriptions of the phenomenon are written already during the grouping phase (Tuomi &Sarajärvi, 2002, p. 111-114). Grouping is an essential part of the analysis because it is the basis for the later interpretation (Hirsjärvi & Hurme, 2001, p. 147). During abstraction phase the groups formed in previous phase are combined and the aim is to proceed from individual linguistic terms into theoretical terms and conclusions (Tuomi &Sarajärvi, 2002, p. 114-115).

The content analysis of this research started with combining all the interviews into one document and reading the data several times while making notes in the comment field of the document. After that started the reduction phase and the data was observed through the themes of the research and the relevant parts were bolded on the document. After recognizing which parts of the interviews are important for the research then those

parts were transferred to separate excel- document for further analysis. During the content analysis interesting themes may arise from the contents but researcher needs to choose the scope to focus on and limit irrelevant out of the scope (Tuomi & Sarajärvi, 2002, p. 93-94).

The next phase of the content analysis of this research was grouping the relevant data. Grouping was made in excel by firstly coding the interviewees with different colors. In addition, the interviewees were labeled as H1 – H8 and in the next chapter the answers are separated with these labels. After that the data was grouped by creating key words or phrases to describe answers to different questions and themes. By doing this the answers were organized to be filtered with the key words to answer the questions. Meaning, that for example the answers describing the leaders' practices to contribute to the innovation capability *"The most important things to do as a leader are coaching, and being interested in the work, keeping the team motivated and showing direction"* and *"As a leader I give a clear status information of what we're supposed to gain and then I give freedom to choose the way"* are placed under the same group *"leadership practices, factors affecting innovation capability"*

During the abstraction phase the groups formed in previous phase are combined and the aim is to proceed from individual linguistic terms into theoretical terms and conclusions. The content analysis for this research is theory-related (abductive) so the empirical findings of the research are connected to the concepts presented in the theoretical framework rather than creating new concepts based on the research data (Tuomi &Sarajärvi, 2002, p. 116). The conclusions of the results are discussed in chapter 6.

5 Research findings

In this chapter the results of this research are presented. The object of this research is to increase the understanding of how the case company's leaders contribute to the innovation capability and increase understanding of case company's innovation capability. Leaders' experiences of innovation capability are presented in the first subchapter. Leaders' experiences of the ways to contribute to the company's innovation capability are presented in in the second subchapter. Leaders' leadership styles are presented in the third subchapter.

5.1 Leaders' experiences of innovation capability

Company leaders define innovativeness to be the ability to produce new ideas for completely new products or for improving the existing ones. Innovativeness is associated with a certain mindset and followers showing innovativeness is related to the level of activity to bring up innovative ideas and the eagerness to discuss the ideas.

> *Innovativeness is continuous improvement. It is about performing better, taking things forward and creating something new. Innovativeness is about creating new ideas and refining and taking the ideas further. Innovativeness produces new ideas that brings value (H6).*

> *Innovativeness is continuous improvement. It refers to the level of how actively employees are willing to discover improvements to their work environment. (H8)*

> *The whole organization is responsible for the innovation capability (H5).*

The interviewees associate the level of innovativeness to physical and mental conditions of the company. According to this research the case company promotes innovativeness by creating supportive processes, channels to present innovative ideas and platforms for developing the ideas further.

> *The processes and infrastructure of the company has a great impact on innovation capability. By creating low barriers and hierarchy, enabling discussion, and coaching with low threshold and supporting cross-functional teamwork in the organization we support the development of innovative ideas. (H3)*

The mental conditions recognized in this research are individual motivation, engagement to work and individuals' general interest in things happening in the company's operating environment. It is recognized that leaders' attitude towards innovativeness and creativity can either support or block the innovativeness in the company. Leaders have a vital role in creating company's innovation culture and showing interest towards the ideas. To support the continuity of the idea generation leader's need to show interest towards the ideas and make sure that the ideas are take further.

> *Leaders have an important role in promoting creativity and innovativeness. Leaders can easily prevent innovativeness by diminishing the incomplete work or ideas presented. (H1)*

> *Being innovative requires time, peace, and motivation. Leader's task is to receive the ideas, evaluate them, and make sure that the ideas are taken into use or developed further. If we cannot execute or develop the idea right then, it needs to be explained why. (H5)*

According to the interviews innovation capability is the case company's ability to continuously bring new or improved products to the market that creates value to the company and customers. Furthermore, innovation capability is the ability to use company's resources and knowhow to continuously improve company's performance. Innovation capability is described as the ability to carry out the process to use innovativeness to generate ideas and promote the ideas into valuable innovations or improvements.

> *Innovation capability is the ability to bring new products to the market, or products that have clear improvements compared to previous products or products that solve customer problems. (H1)*

> *Innovation capability is organization's ability to create value and new business. It is enhanced by the knowledge and culture (H2).*

> *Innovativeness can be producing several ideas which is not yet value. Innovation capability is then to use the ideas to something useful. (H8)*

> *Innovation capability is about learning, being inventive and making cooperation (H4).*

Innovation capability is recognized to be the key to case company's success in the future and the mechanism to carry out company's strategy and vision. The competition on the case company's market environment has become harder and innovations are needed to improve company's competitive advantage. Innovation capability is not only focused on new or improved products but also on process and organizational innovations were recognized to be on the focus.

> *Innovativeness is an essential for company's existence and it enables growth and development. Growth is generated through the differentiation that has been created with innovative products and product catalog development. Without innovativeness and innovations company does not have a future. (H2)*

Putting effort in promoting innovation capability in the company is needed for future success. The interviewees recognized that it is important to involve everyone to the development and innovation capability can be used to increase both the financial outcome of the company and the job satisfaction and wellbeing in the company.

> *Innovation is something that saves time or produces more money, but I think innovations can indirectly promote workplace and customer satisfaction too. Innovation can be related to fasten the decision- making process or making processes more efficient. (H1)*

> *It is my job to enhance the overall performance in production and it makes me happy to see that we are hitting the goals. (H4)*

The need for process innovations in the case company arises the need for overall efficiency, efficiency in the production areas and the need to fasten the innovation process for new technologies. Innovation capability is seen as a driver for business continuity in the first place but also the key to create new products to maintain the position in the top

level. According to the interviews the company's products has been the top of the field for long time and the competition have not been so intense. However, the competitive environment for the case company has changed, and it has raised the need to understand the competitors and what would be the factor that differentiates the company from the others.

> *Innovations can have large financial influence when we can cut the costs by using less material or get better output which means more sales. (H4)*
>
> *Capability to innovate is nowadays a necessity to companies. Few companies can be competitive without renewing. (H6)*
>
> *Regarding our future products, we are now talking about such technology that nobody else possesses and no one else will tell how to do it. Capability to innovate and stay in the top of development is a requirement. (H8)*

When company leaders were asked about the innovation capability of the company, they considered it to be on a satisfactory level. The interviewees recognized five main strengths shaping the case company's innovation capability. The main factors were cross-functional -teamwork, company competences, organization culture, innovative vision and structure and processes that enables innovation.

> *It is all based on continuous improvement. Our way of working is based on changing things and in that sense, I would say that the innovation capability is strong. (H2)*
>
> *Innovation capability is much about teamwork skills. In our organization we use a lot cross-functional teams to solve cases and I think that using the cross-functional resources makes the results faster to higher level. (H5).*
>
> *Culture is affecting the innovation capability. In our company we have a good spirit for work, and we help each other. We also bring new ideas to the table, and we build on each other ideas to develop the ideas. That brings a positive twist to the work. (H7).*

Leaders associated learning with the innovation capability as a source for new ideas and as trigger for improvement ideas. Diverse ways of learning were recognized during the

interviews. Learning from attending a course or taking further studies, learning from trying something new, learning from mistakes, learning from work task cycle, learning from different stakeholders for example machinery suppliers and from benchmarking were recognized to be excellent sources for innovative ideas. Learning from the market and from competitors was mentioned also as a source how to prevent mistakes.

> *One can also develop the innovation potential by learning and by getting a better understanding of the field. (H2)*
> *The more there is understanding the more there are capabilities to understand the items that can be improved. (H2)*
>
> *Innovation capability is partly about the ability to learn new things so in that sense it is everyone's responsibility. (H5)*

Learning from spontaneously trying new things was viewed differently in production and R&D functions. In production areas any exceptions are tried to avoid and perform the assignments as flawlessly as possible but in R&D functions attempts to try something new are valuable learning events. To support the innovative organization culture the work environment must allow the possibility to failure.

> *The mistake in production is bad thing and catastrophic but for us (in R&D) the mistakes made are the only ways to learn. (H2)*
>
> *People dare to comment, present their thoughts and they dare to try things and fail, which is a good thing too. (H7)*

Innovation capability was highly associated with cooperation skills and utilizing cross-functional team capabilities. Using cross-functional teams to solve problems or innovate novel solutions is recognized to be effective way to fasten the problem -solving and to increase the understanding of company's processes and getting to know each other in the company. The benefits for using cross-functional teams in the case company is the capability to understand the task in hand from multiple viewpoints and the ability harness the whole organizations brain to work.

We work on complex issues in cross-functional teams where everyone is allowed to talk and bring their ideas to the table. – It could be easily so that we work in our own silos which could lead to situation where we do not know about others work and we could struggle with the same issues. (H2)

If you are interacting only with your own team, it is quite limited what you see. (H5)

In addition to using cross-functional teams inside the company it was recognized that using cross-functional teams with other stakeholders is also important for the innovativeness in the company. It was underlined that utilizing the external stakeholders to idea generation or idea development requires good networking and cooperation skills. Cooperation partners to feed innovative ideas were recognized to be companies from the same cluster, machinery suppliers and other group companies.

When we manage to widen the discussions outside to our own bubble, we can find more ideas. (H7)

The most significant ideas arise through the external interactions. The capability to transmit the customer's situation or the market situation on an adequate level is a necessity for the innovative ideas to be born. (H6)

According to the interviewees one driver in putting together a cross-functional team is to build a team with the same goal which gives purpose and direction for the work. Providing a process for informal conversations in cross-functional environment was recognized to be fruitful for sharing knowledge between the functions. According to the interviews it was not important how formal or extraordinary the platform or the subject is, but it was seen important to provide the possibility to discuss and bring people together.

Conversations are allowed without barriers, and it is possible to work in cross-functional teams to increase the innovativeness and especially the development

> *of the ideas. We can influence the level of innovativeness with organizations structures and ongoing processes. (H3)*

The interviewees recognized a few challenges regarding the innovation capability of the company. One challenge regarding the innovation capability was narrow market for the products and the ability to widen the market. This challenge was assumed to limit the creativity and the innovativeness to certain kind of products which was seen as limiting the full utilization of the innovation potential.

> *The technology is quite mature already and it is hard to find innovation there. The innovations are focusing on process development or product details than new product ideas – or concepts, which are desired by the company. (H1)*

Another challenge was related to the length of the innovation process from the idea until the product is available on the market. To compete and to be a forerunner on the industry adds pressure for faster innovation process.

> *For example, one recent product should have been launched two years earlier, so it (innovation) is to slow when we try to bite more than we can chew at once (H2)*

> *We might have them (new innovative ideas) a lot, but we are not that capable to bring the ideas to the market. (H5)*

The third challenge regarding the full potential of company's innovation capability is related to the age and size of the company. It was seen as a large company's dilemma to simultaneously run the main processes and create something new. It was recognized that the company produces a lot of good and valuable ideas but not all of them are utilized or taken further because even though the ideas may have been great those were not in line with company's strategy.

> *We have killed things that were incredibly good and promising. If this has been a start-up, we would have speeded up, but we just cut it off. (H2)*

According to the interviews leaders experience their roles important in contributing to the innovation capability. Company leaders raised five main channels to contribute to the innovation capability of the company. The themes raised by the leaders are presented in the figure 8.

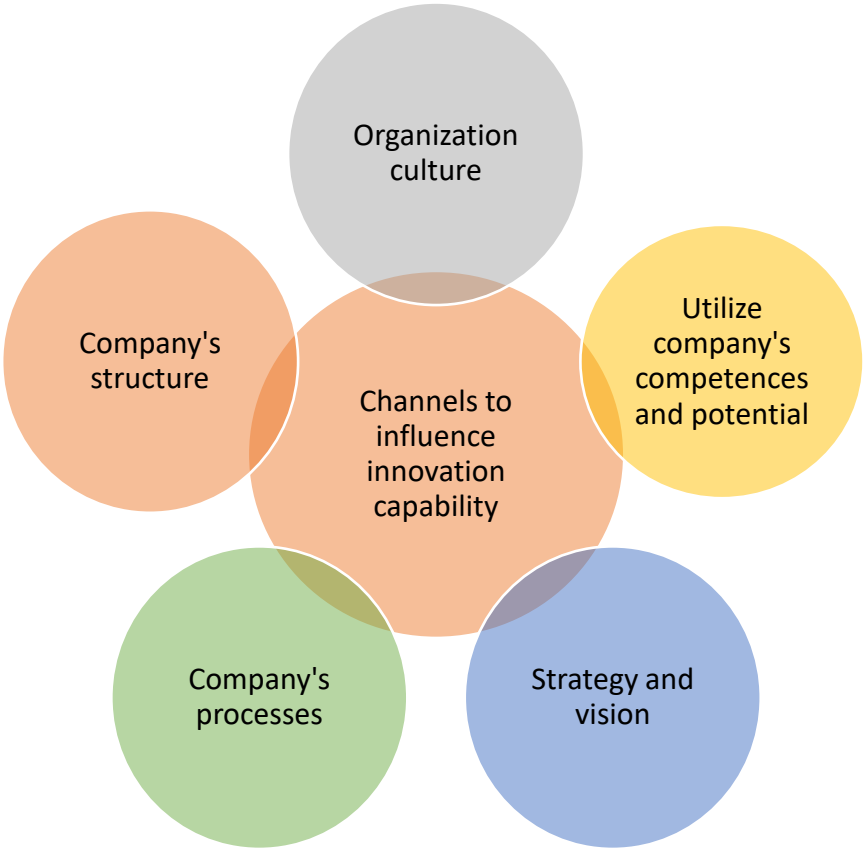

Figure 8. Channels to influence innovation capability.

Company leaders assumed that they have a significant impact on company's innovation capability because they have a strong influence on organization culture, decide the future direction and the processes the company even has. Leaders have a key role in harnessing the follower's competences into use and utilizing the follower's potential.

> *What I do, has a concrete effect on what we do now and what we do in 5 years. (H3)*

As a leader you can promote or destroy the innovativeness. The challenge is to support the innovativeness and at the same time steer the doing to correct direction. It is true that we cannot do everything, and every new idea is not good. But as a leader my responsibility is to keep the focus and positively give feedback to keep the innovative wheels rolling. (H8)

5.1.1 Organization culture

Leaders influence the innovative organization culture of the company by deciding which subjects are important and which themes are focused on. Leaders' mindset towards work and their attitude against new ideas influences the level of how permissive the environment is against presenting new ideas and if it is acceptable to suggest new things. Leaders' attitudes towards presenting new ideas and their expectations for innovative work was described to message for the organization if innovations are desired or not.

It is about leaders' choice in what kind of organization we work at. Who works alone and how open the discussion culture is. (H6)

As a leader I show the direction, and the atmosphere that I maintain will be flowing to the rest of the organization. (H8)

Leaders attitude towards innovation is important. When leaders expect results in that field it is a sign that this is what is wanted. (H3)

Social interaction in the organization culture was recognized to be important to both increase the idea generation and support the idea processing. Open discussion culture was mentioned several times and it was highlighted to be much desirable. Open discussion culture is associated with an organization culture with low barriers to discuss with anybody, discussion is allowed and there are platforms that promotes the open discussion. Open discussion culture and social interaction in the workplace can be promoted with formal and more informal ways. Allowing breaks during the working day is a good example of informal ways to meet people and having conversations outside the main profession.

Coffee machine surroundings is a strategic place where people from distinct roles and functions meets and has spontaneous conversations. (H1)

Leaders can promote the innovative ideas by creating an open discussion culture in the company. Active discussion with no barriers can help the employees to outline their thoughts and boost and develop the original ideas. Leaders are needed as mirrors to outline these ideas. (H2)

Organization culture that allows open discussion culture was shaped by the fact that everyone is allowed to talk and bring ideas or questions to the table. This kind of organization culture needs work and attempts to show example. According to the interviews certain meetings and workshops provides platforms for participants to freely discuss the matters in hand. According to the interviews the social interaction was considered fruitful for innovation capability because ideas are refined and looked from many viewpoints. To be able to discuss the ideas with someone was seen as a process to outline the ideas and even develop them further. It was recognized that open discussion culture spreads the ideas and knowledge around the organization when people talk around or start thinking about something one has heard during the day. Being physically present at the company location was consider useful in the light of idea generation.

It has happened to me several times that someone has shouted something in the canteen or when walking by and I have been thrilled about it for the rest of the day. (H3)

The most important thing affecting innovativeness is the organization climate. An organizational climate where people dare to say things aloud. I think that being physically present has a lot to do with the interaction between people and it has an impact on innovativeness. (H3)

5.1.2 Strategy and vision

Case company's leaders decide the direction for the company and what are the markets the company is targeting. Allocating resources to developing new business and new technologies outside the company's main scope was considered important for the company's

future. To maintain the competitive advantage on the market it was considered important to promote the smaller projects that was seen as future possibilities.

> *This kind of prioritizing policy leads to position where only the large project, which is important for company's future too, is going forward. Then it is harder to contribute to the things that are possibilities in the future and should developed. (H1)*

Company's leadership culture was linked to company's strategy message and strategy seen as a tool to direct the company to work together for a common goal. According to the interviews leaders have and important role as an intermediary for the strategy message in the organization. The interviewees pointed out that if the managing director's message contains an expectation of innovativeness, it is a message to leaders that time and resources can be allocated to such activities.

> *Our strategic metrics are tied to measure innovativeness. (H2)*

> *The management group decides the direction for us, the next level analyze the meaning of the message and starts to roll it downwards in the organization. (H5)*

Decision making culture was recognized to support the innovation capability through empowering the experienced leaders to take a part in decision making. Interviewee H8 arguments that letting senior manager level leaders to make more decisions is a right step to support the innovation capability of the company.

> *The closer the decision-making level is, the more the leader can be evolved in the technical parts too which means better understanding and support for the innovative ideas to be developed further. (H8)*

It was recognized that leading innovation capability in the company in some level lacks visionary. Even the top leaders can participate to the project work or customer meetings which was seen more as daily leadership work. The visionary would be required for more

strongly showing the direction to the future and a little less participating to solving daily problems.

> *We have experienced in our organization that people would like to have more powerful leadership regarding the decision -making like what the leaders will choose to do next. (H8)*

> *There is less visionary and looking at the big picture and it is more like solving daily issues. Which, I understand is needed when a project is unfinished. I think leaders should look a bit further – when this project is ready, what then? (H1)*

Leaders saw that in some cases new innovative ideas were buried before they become anything. Leaders plays a role in directing the doing towards company vision and implementing the strategy which means that innovative ideas that does not serve the meaning must be left out. From innovation capability point of view too tight vision or road mapping leaves everything else out of the scope which means not all the capabilities or ideas in the company are utilized whether they would be good or not.

> *If vision is limited so that we will only go for certain kind of markets, it eliminates all other possibilities. (H6)*

> *The goal or vision enables innovation, but it can also be restrictive if the target or vision has too tight framework where you do not have the possibility to choose. – In our company the vision is quite open, and it leaves room for innovation. (H7)*

> *Feedback for ideas or other innovative behavior is crucial for the innovation capability to develop. Leaders' need to learn how to give feedback of ideas so that they are appreciated. If new ideas do not fit the strategy the feedback need to be fairly explained. (H1)*

When an idea was to be left outside, the leaders needed to consider the way neglecting an idea was communicated in the company. According to the leaders' if new ideas are neglected by the leader, in the worst scenario it indicates to the employee that ideas are not wanted which turn off the lust to innovate. And once the damage is done it may be hard to turn it on again.

There has been much negative message that we do not have money for this, so do not suggest things like that. That kind of message leaves an image that OK robots were not wanted so I probably should not suggest any automation for now. (H8)

5.1.3 Company's structures and processes

To increase the number of innovative ideas, the company have built channels and processes that lowers the barriers to tell the ideas aloud. To support the idea generation and lower the barriers leaders can support their team members to discuss with each other to gain certainty, support the environment to allow unfinished ideas to be presented and share knowledge about previous innovations or inventions for reference about what is needed.

A presentation letter of the invention ideas is shared to leaders to share with their teams. It is crucial for everyone to know what kind of inventions are made and I think it will lower the barrier for individuals to start chatting with the colleague if they could do the same. (H2)

You do not have to prepare any formal presentations to open the conversation about an idea. Rather just throw the idea in air in an informal way so that others can boost the idea and build on it. (H8)

According to the interviews performance measurement is a practicable tool to lead even innovation capability. It is recognized that the people are the greatest specialists of the work, and they can produce innovative solutions, if it is expected and measured. To support the effect of performance measurement the company uses rewarding as a tool to support innovativeness and innovative behavior.

From this group you get exactly what you measure. –You need to push a little to show that something needs to be done and it is not voluntary. (H4)

We have a well-functioning channel for inventions and new patents, and we also have measurable targets for them. (H1)

Innovation capability was seen as an important capability all around the organization and according to the interviews it is everyone's matter. The level of innovativeness in people seems to differ but according to the interviews the environment and conditions provided has more powerful impact on individuals innovativeness than the fact if they have it naturally or not. Leaders have produced activities and processes that will support the innovation activities in daily work. In production function the innovativeness is targeted to process development and utilized for example for minimizing the scrap or reduce material usage. Production functions leaders support the innovativeness by reporting the results to their teams and by highlighting the achievements made. The attempt is to make the achievements visible and stimulate the employees to innovate.

> *We feed them with the knowledge and let their mind start to wander how the work could be done. (H4)*
>
> *Innovativeness and innovation capability can be promoted by knowledge sharing. Sharing knowledge about the work done, what was learned and what we succeeded at is important and supports the innovative activities. (H4)*

Learning was highly associated with the innovation capability in the interviews and there are diverse ways to support the learning in the company. Learning new things was associated with understanding the work better and contributing to the creation of innovative ideas.

> *We are allowed to take doctoral degree while working because the doctoral thesis is supposed to create new knowledge and our company has understood the importance of education. (H1)*
>
> *Innovation potential can be developed by learning and by getting a better understanding of the field. (H3)*

Allocating time to innovate is a crucial factor shaping the innovation capability of the company. It is recognized that if the daily schedule is filled with daily tasks and there is not time to stop to reflect the work then the schedule is too tight for innovativeness. According to the interviews too intense pressure inside the organization fades way the

time to do something out of the ordinary and organization is not developing. However, to some people the haste and pressure is working as trigger to the need to innovate which also requires time to start actualizing the innovation needs.

> *Time is a crucial thing for innovations to be born. If the work is strictly performing and there is no time to stop and think there is not space for innovativeness. (H2)*
>
> *As a leader I can contribute to the innovativeness with providing time for learning and time to think. It is hard to be very innovative if you are pushed to do the routine work as efficiently as possible. (H5)*

Knowledge management is important to support innovation capability in the company. Knowledge management is used gather the information flows in the company so that the knowledge can be utilized in different projects and by different people.

> *Gathering knowledge enables us more success at work to because if there is less need for repeat and iteration there is more room for improvement, and it releases time for innovativeness. (H6)*
>
> *We have a process for saving information used in projects so that the information can be found later, and you can go back to check it. (H7).*

Leaders recognized that the company possesses strong competence of its core operations, and the employees are eager to learn new things even outside of their current position. The company have a lot of highly intelligent employee's and for the innovation capability it is important to use the available potential.

> *It is leaders' decision if they want to utilize the whole organizations potential to innovate or not. The decision affects the leadership choices that are made to fill the expectations. If we want innovativeness, then the leadership need to allow dialogue and take actions to bring the people to discuss certain matters. If developing and innovativeness is a priority, then we need to make it possible. (H4)*

5.2 Contributing to innovation capability

The leadership styles presented in the company are mostly based on transformational leadership blended with motivating and moral leadership styles. The research conducted on this thesis focused on how the leaders are contributing to the innovation capability of the company. Interviewees were asked to describe the ways they are able to contribute to the innovation capability of the company and how they would describe their own leadership style. The themes raised by the leaders' are presented in this chapter.

5.2.1 Full -range leadership

All the leaders described some characteristics of the transformational leadership when they were asked about their own leadership style. On the following figure are presented the themes regarding full -range leadership style that were raised by the leaders.

Figure 9. Full-range leadership.

Four of the company leaders described characteristics of charismatic leadership to contribute to the company's innovation capability. Charismatic leadership was described as the leader's own attitude towards the work and the company. Company leaders showed loyalty for the company, pride over their work and encouraged the followers to do their best. Leaders had experienced that many times the leader is a former specialist from the work and there is a need to make a difference between being a leader and a specialist. Leaders felt that follower's expected charismatic leadership and showing direction.

> *When a specialist is very deep in the project the vision sometimes becomes unclear. As a leader my role is to bring perspective and help to move forward. (H2)*

> *it is my job to enable my team to make their best as they are the real specialist of the work. As a leader I try to persuade the best out of their potential. (H5)*

> *I have noticed a need for more powerful leadership like the need that the leader shows the direction and comments on what should be done (H8)*

Company's philosophy and vision were used to demonstrate inspirational motivation. Company's vision itself and the way of working include anticipation of innovation and the company leaders were using that to motivate employees. In daily work inspirational motivation was tied to vision when leaders explain the connections between vision, strategic targets and what is to be done to hit the targets.

> *As a leader you need to be able to steer the discussion and doing to the correct direction in every situation. (H2)*

> *The direction is important. In our company we always look forward and we have a future perspective in the work. It is a part of our culture to develop. (H4)*

Leaders reported that they have an important task to direct the daily work towards the desired target. In the daily basis employees can have multiple tasks on the table and it can be hard to prioritize. Leaders have the bigger picture clear in their head to coach the employees to prioritize the projects that best promotes company's operations. To direct the work to desired target, leaders explain and communicate the expectations to their teams. According to the interviews explaining the desired outcome help team to start focusing and producing solutions for the correct problems.

> *The first step to innovate is to understand what is expected from you. You start to build the picture of how to achieve the goal and they (follower's) start to produce even concrete invention to solve the problem. (H2)*

Many of the leaders felt that it is their responsibility to make sure that the teams know what is expected from them and they know how to do it. It is not necessary that every leader is a visionary, but leaders should have the vision so clear in their heads that they can steer the work in every situation so that it serves the company best possible. It is

important that the desired outcome is put into words and communicated very clearly to the teams. To fill up this responsibility, leaders show interest on their team members work and ask and follow up how their work is progressing. By maintaining good interaction with the team, the leader can support the problem solving and help the team to succeed.

> *As a leader you can look the situation from helicopter perspective and say that this is what we do and focus on, let us not care about the other stuff and this will be good. (H2)*

The company leaders have seen that it involves a lot of interaction to lead a team and it was recognized that people are different and have unique needs. Leader's social skills were seen to have an impact on the way they can support the innovativeness and innovation capability of the company. Different approach may be needed to different employees, and it was a leader's task to get to know the team member's well enough to support their needs. Leaders aim to influence innovativeness and innovation capability by considering individuals unique needs by using coaching methods, building a relationship with the followers, and showing interest towards their work.

> *People are quite different with their needs but leader's need to develop certain relationship with the team to be able to lead them. The most important things to do as a leader are coaching, and being interested in the work, keep the team motivated and show the direction. (H3)*

> *It is up to the leader, but also the other part, how straight they can be with each other. To some people you can tell it as it is, and to some you cannot. (H2)*

> *As a leader I use coaching methods to direct the work. I use the annual performance reviews and weekly one to one discussion to reflect the work situation and in what direction the work is going (H7)*

It was considered important that followers have possibilities to discuss their ideas with the leader or with a colleague. Intellectual stimulation was promoted in the company by providing platforms and encouraging for open discussion, leading knowledge, and giving the follower's the responsibility to do the work and use their potential. The company

leaders highlighted the importance of managing knowledge by sharing information, saving information for later purposes, and using the available knowledge for example from the markets to generate ideas. The leadership culture needs to be calibrated to promote the innovativeness, gather people together and make them have conversations and share knowledge.

> *Leaders have had positive attitude towards employee's suggestions and the ideas have been utilized. (H1)*
>
> *I try my best to be positive and supportive towards the innovative ideas. (H3)*
>
> *Leaders' role in supporting innovation capability is that the leader does not automatically tell how things are done but rather gives the direction and lets the team to produce the solution. (H4)*
>
> *As a leader I try to feed my team with the information to promote innovative thinking. (H4)*

According to the interviews learning is supported by giving chances to attend a training, conference, or study further on the side of the work. Learning by using internal work rotation is recognized to support the innovative thinking because the looking at the processes with fresh attitude causes a possibility to development. Learning from the process by involving the creator of the idea to the idea development process is considered as an important way to increase the innovativeness. Learning from the coworkers is seen an effective way to harness the company's potential into use. According to the interviews it would be important to start utilizing the corporate's potential to share knowledge and learning from each other's best practices.

> *We have unique infrastructure here because the production and R&D function are at the same location. I think we could quite easily blend these two functions to increase the learning opportunities and improve innovativeness. (H5)*
>
> *Managers need to encourage the followers to learn new things and develop. (H5)*

Leaders considered empowerment to be a useful tool to promote innovativeness in the organization. Leaders try to empower employees by sharing information about monthly outcome, previous innovations and successes and actively participating in discussions.

> *Sharing information about the work that is related to actual data and I utilize the data to reason the needs and feed the thoughts. (H8)*

> *Giving information about the previous successful ideas is important in encouraging to innovativeness. It is about showing what is wanted and lowering the barriers to bring ideas into the table. (H2)*

> *As a leader I am sharing quite a lot of information with my team, and we go through the production metrics and challenges, and I think that by providing this information will make my team start to think about how to fix it. (H4)*

Giving freedom and responsibility to the team was used to empower the individuals to use their potential to produce innovative ideas. It was noted that if the leader was dominating the way of doing, then the team executes the leader's idea of the work. To harness the team's innovation capability into use the leader must give the team freedom, time, and peace to produce solutions. Leader's role is not to give ready answers to accomplish leader's thoughts but rather push the team to brainstorm the answers and use their potential.

> *It is a common bad habit that the specialist or leader solve the problem by themselves. – When I do not push my own idea as a leader, I am positively surprised by the solutions my team has come up with. (H5)*

According to the interviews the leaders felt that they need to create a work environment with positive attitude towards raising issues or presenting ideas. An atmosphere that is psychologically safe and allowing was associated to support innovativeness in the workplace. Leaders enhanced this culture by showing example on how to react to new ideas or towards critical feedback for presenting the ideas.

> *Leaders should enable positive culture for bringing up new ideas and show example how to comment when someone presents a new idea. A positive culture towards bringing things up which includes the aspect that even if the idea is criticized by someone or someone's attitude is negative you do not have to get angry about it. (H1)*

To promote the innovativeness and innovation activities leaders said they are using rewarding as a tool to show appreciation and increase the follower's pride over the work. Company leaders can give smaller rewards during daily work when they recognize desired innovative behavior. Indications of positive transactional leadership were shown by some of the leaders. Contingent reward was used to promote the innovativeness in the company level with managing directors' recognition but also in daily work with smaller rewards. Rewarding is seen as a tool to support continuity of innovativeness and creativity.

> *Innovativeness can also be encouraged with different monetary rewards. Rewarding employees for bringing up ideas will encourage to do it in future and increases the feeling of appreciation. (H5)*

> *If there have been great innovations, we have rewarded employees to promote more of similar activity. (H8)*

Rewarding and recognition was considered as a concrete way to direct the work and make the people feel that they are important for the company. According to the interviews the rewarding could be bolder of innovative ideas specially when the idea has had monetary effects and the innovations could be highlighted even more to promote similar activities in the future. Sharing the positive news and successful innovations with the subordinates is a useful way to support positive mindset and promote the innovative behavior. From the leadership point of view, it is important to celebrate success whenever there is a reason and provide the team information about other team's innovations across the organization.

> *We need to educate our managers to notice the importance of rewarding individuals and showing respect for their work. Individuals feel like they are important and maybe tries to reach even higher by stepping out of the comfort zone which makes them develop further. (H5)*

> *Rewarding for the ideas and innovations need to be fair and enough to motivate. (H2)*

Leaders used networking as tool to both support innovation capability and to empower the followers to take responsibility of the work. To support the innovation capability leaders used their networks to bring the right people together to discuss ideas further. By doing this, leaders gave responsibility and autonomy to the subordinates and connected them to the organization which supported the process for future needs.

> *Networking is a tool for gaining and giving knowledge inside the company. Building networks and utilizing the network capabilities is a good environment for innovative ideas. (H7).*

> *It would be good if people could take things forward by themselves without always processing the ideas through a bottle neck. (H8)*

To increase the feeling of appreciation against the innovative ideas, leaders said that they need to show it. Appreciation for the innovative ideas was shown by positive attitude towards the ideas, sharing knowledge about previous innovations and showing data about the effects of the innovations. It was considered important to share the information also about innovations with smaller effect. By doing that leaders encourages the subordinates to take smaller steps too and not trying to solve all the problems at once.

> *We are continuously performing a little bit better, and we do not have to solve the whole world at once. (H5)*

Leaders support the innovativeness in their followers by allocating time to innovativeness, providing a platform to discuss and develop the ideas, giving freedom and responsibility to support the trust and by setting targets to the work. If innovativeness is expected and measured it will be realized. People are seen innovative and creative by nature although it is not always recognized because the innovativeness appears different ways. One person may show innovative behavior by generating a lot of ideas whereas

another one by organizing the workplace to support the processes. As company desires to channel the innovativeness into business and value it is leader's task to dig it up by using their skills as leaders.

> *My task is to enable and get the best out of the people. The way it is done is different for everyone but to attract the best out of everyone is what I try to do. (H5)*

5.2.2 Motivating leadership

In addition to transformational leadership, motivating leadership was well presented on the interviews. Motivating leadership features were shown both through empowering and entrepreneurial leadership practices. On the following figure the themes regarding motivating leadership raised by the leaders are presented.

Figure 10. Motivating leadership

Empowering leadership style was shown by giving autonomy to impact the working practices and by giving time and peace to create solutions to the problems. Company leaders aims to encourage followers to participate in innovative activities and problem solving.

> *As a leader I can contribute to the innovativeness with providing time for learning and time to think. It is hard to be very innovative if you are pushed to do the routine work as efficiently as possible.* (H4)

> *Giving freedom to perform the most suitable way because people are so different. (H2)*

> *It is about giving the employee's possibility to participate in developing the idea and show respect for their work. (H5)*

Leaders described empowering leadership activities by showing positive mindset and genuine appreciation towards work and ideas, influencing followers' intrinsic motivation by giving feedback and assignments based on personal capabilities.

> *As a leader I can contribute to the innovation capability by encouragement and letting the team solve the problems. Sometimes I have a vision for the result but when I am not pushing my own idea through but let the team present their idea the idea is usually much better than mine. As a leader I should give the team peace and time to solve the problem and encourage them to do it. (H5)*

> *Let the people do the thinking and as a leader do not tell the answers. It is not leader's ideas we should implement (H4)*

Highlighting the importance of employee's work was used as tool for feeling empowered. Leaders have recognized that the followers are capable to do the work themselves too and giving responsibility and autonomy to take the idea's further themselves would enhance the feeling of empowerment.

> *To empower the follower to take actions to proceed with their ideas in a self-directed manner would be actual innovation capability. (H8)*

Furthermore, the leaders reported that they utilize information sharing to empower the followers. They have recognized that sharing what has already been done and what innovations even mean can enhance the idea generation and support innovativeness in their teams.

> *We have an information sharing event where team members have a possibility to share if they have taken new tools into use, made significant improvements where they may have gotten rewarded. This info is shared between the teams and maybe not everyone is interested but someone can get a hint of what is wanted. (H8)*

Features of entrepreneurial leadership were shown by encouraging followers to involve projects and to interact with different people. Informal interaction and networking in the company were also encouraged to support innovativeness and cross-functional teams were highlighted as a tool to enhance innovativeness organization wide. Interviewees recognized that entrepreneurial leadership style would be needed more to focus leaders work away from the daily work to think about the next steps for the company.

> *As a leader my strengths to lead innovation capability is the understanding of technical processes, my capability to connect and build networks and creating functional processes to support the work. (H6)*

> *Working hands-on in a project is not included on my role anymore but I show direct example by doing so. (H8)*

> *Giving freedom to proceed with the ideas without unnecessary bureaucracy. As a leader I can help with the connections and who to contact to proceed. (H8)*

Entrepreneurial leadership was described also through the engagement to the company. Leaders were acting as an active role -model to challenge the current state and encourage engagement to work.

> *By the time you start thinking about it, even if you don't have to think about it in a concrete way, if this was my company, the underlying thing is that it's your own business as you would be doing this to yourself which in turn makes you work in more flexible way. (H3)*

> *I challenge them to think if there is something we could do to improve our products or enhance something that is going on with a customer to make it better. It is a part of my personal way of thinking. (H3)*

Leaders reported that the company's competence base can be utilized by giving responsibility to the followers to find the solutions and simultaneously they promote innovation capability.

It is important (for the innovation capability) to harness the production employee's brain to the development too. – I have the possibility to impact, and if I do not then no one else will do it either. I do have the keys to it. (H4)

5.2.3 Moral leadership

In addition to transformational and motivating leadership practices, the company's leaders also showed features of moral leadership and especially authentic leadership style is represented on the answers. On the following figure 11 are presented the themes regarding moral- leadership style that were raised by the leaders.

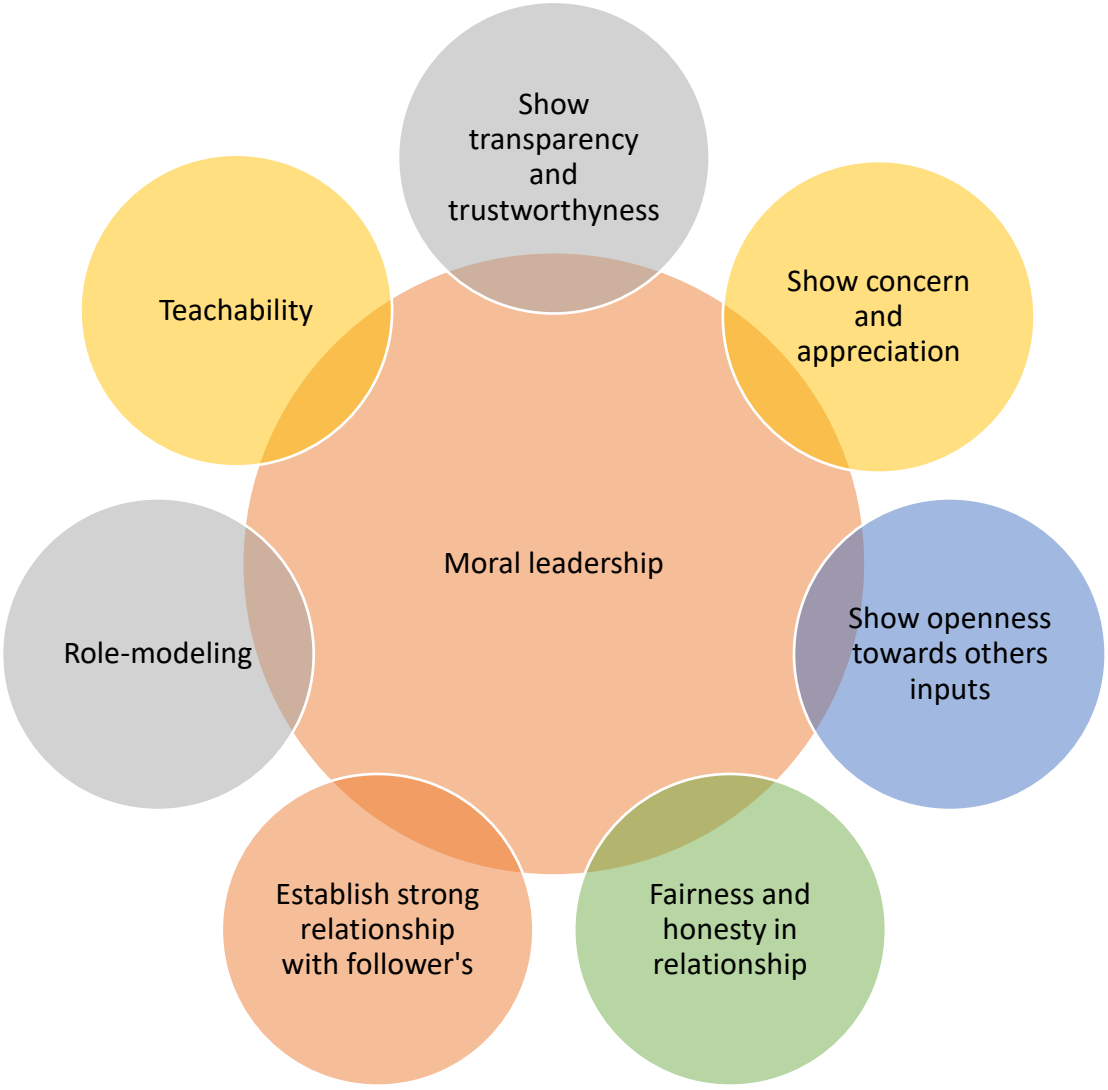

Figure 11. Moral leadership

Leaders contribute to the innovation capability with authentic leadership style by increasing psychological safety in the organization by acting as role-models to fairness, transparency, and trustworthy way of working.

> *It is important to give fair valuation for the ideas and leaders need to set an example of the way how new ideas are commented for example in meetings when the ideas are presented the first time. (H1)*

I want to trust people. I have told them what is expected, and I want to trust them (followers) to do their work. In any case I do not want to be a micro manager. (H4)

Psychological safety in the workplace was considered important because it makes the individuals feel like they can say all the ideas aloud without feeling embarrassed.

Psychological safety is one feature to support innovation capability. (H8)

We appreciate different opinions and make people feel psychologically safe that they can ask anything without thinking it is stupid or anything. (H2)

Leaders mentioned that having a good interaction with the followers is necessary to promote the positive way of doing.

I think that creating a good relationship with the team members is important so that I can adjust my (leadership) methods to it. (H7)

I am optimistic and in a good mood and I prefer friendly interaction with people. I think that if people feel OK to be at work, it is nice in here and people are happy then they are more motivated to invent new things as well. (H5).

Moral leadership include a subgroup of humble leadership which features was described in two interviews. These leaders reported empathy, support for ethical code of conduct and appreciation towards the follower's work to promote innovativeness. It was recognized that thinking about doing things differently or making improvements is not familiar to everyone but by giving tools and showing example will encourage to try and makes the innovativeness possible in the organization.

If we want to increase the innovativeness in the organization, we need to teach it. We cannot assume that people start to innovate just by asking for it. (H5)

As a leader I need to help my team to learn how to innovate. We have people with diverse backgrounds, and it is not natural for everyone to start innovating or improving. It is my work to give the tools to succeed. (H5)

> *One way to promote the feeling of appreciation is to react positively to everyone's ideas and give them the credit of the ideas. It is especially important not to make anyone feel that their idea was stolen. (H1).*

According to the interviews leaders felt that they influence the level of how appreciated followers feel in their roles and how important they feel their role in the company is. Top leaders support towards innovativeness and creativity was seen to mean a lot for the innovative culture. From the innovativeness point of view, it was recognized to be important to show that there are not any obstacles for the innovativeness from the company side. Which means positive mindset for the innovativeness and giving time and resources to it. For the company's innovation capability, it is important to appreciate the innovativeness all around the company and equally to increase the feel of appreciation.

> *It feels that the appreciation is slightly different in our company. I mean R&D function is appreciated for developing new things whereas the improvements in production function is seen much smaller and it does not weight as much in the conversations. (H4)*

> *Perhaps we can increase the appreciation if we bring the hard data of what we have done to the table for everyone to see. (H4)*

6 Discussion

The main object of this research was to study how leaders contribute to the innovation capability of the target company. The secondary object was to understand the elements of the target company's innovation capability. The research question for this thesis was:

How do leaders contribute to a company's innovation capability?

To find the answer to this research question it was necessary to find questions to the following sub-questions too. The sub-questions for this thesis were:

What is innovation capability?
How to enhance innovation capability?
What kind of leadership is utilized to support innovation capability in the target company?

The research approach for this study was qualitative which was an appropriate choice because the aim was to explore leaders' experiences in detail and the goal for this research was to build an understanding of a complex phenomenon (Hirsjärvi et al, 1997, p. 156). This research was a part of the phenomenological-hermeneutic research tradition (Tuomi & Sarajärvi, 2002) and it focused on interpreting the experiences of the case company's leaders. Altogether eight company leaders were interviewed for this research and seven of the leaders were currently in a leadership position.

To gain an understanding of the company's innovation capability and the leaders' contribution to that, it was necessary to first understand the antecedents of innovation capability and how previous research have examined the elements shaping it. After clarifying the elements that forms and supports innovation capability the focus was turned to leadership practices. Theoretical background of this thesis covers the definition of innovation (Chatzoglou et al, 2018; Schumpeter, 1934), definition and antecedents of innovativeness (Hult et al, 2004), theory for innovation capability (Lawson & Samson, 2001;

Calantone, 2002) and previous research for leadership styles affecting innovation capability (Lee, 2020; Bass, 1985). To understand the importance and the need for innovation, it was necessary to clarify the definition of innovation. Innovativeness is the predecessor of innovation (Hult et al, 2004) so it was useful to present the antecedents of innovativeness too. The theory of innovation capability was linked to dynamic capabilities theory (Teece, 1997; Lahovnik & Breznik, 2014) which underlines the importance of innovation capability in today's dynamic business environment which increases the importance of the research on the area. The key findings of the study, reliability of this research and future research needs are discussed in this chapter.

6.1 Company's innovation capability

In a technology -driven company where the company's philosophy and vision are strongly engaged to innovation, it is justified to expect that the company has processes and operations supporting the emergence of innovations. According to the results of this study, innovation capability of the company is quite strong, leaders understand the meaning and antecedents of the capability to innovate, and they have adopted leadership practices that have positive impact on innovation capability.

According to the results, the most significant factors shaping case company's innovation capability are the strong competence of the field, long history of using cross-functional teams, organization culture that supports innovativeness and company processes that supports the creation of innovations. Strong competence of the field was recognized to be a building block for the company's innovation capability. The competences are gained through promoting learning orientation, knowledge management and supporting and appreciating education. Company's competences are linked to organizational intelligence which is a crucial element for innovation capability and specially for its continuity (Lawson & Samson, 2001; Calantone et al, 2002). Using cross-functional -teams to share information, learn and to solve problems is another building block of the case company's innovation capability. The company leverages the individual competences by using cross-

functional teams and by doing that, the company can harness the whole organizations potential into use. Using cross-functional teams is efficient for sharing information and supporting the organizational intelligence (Calantone et al, 2002).

All the leaders emphasized the meaning of organizational culture in supporting the innovation capability of the company and they had recognized that the open discussion culture, feeling of psychological safety, tolerance for failure and ambiguity and showing interest and appreciation towards employees and their ideas are supportive actions to promote the innovation capability. These characteristics of an organizational culture are in line with the previous research (Lawson & Samson, 2001; Randolph, 1995). Leaders raised the importance of the company's structure and processes in promoting innovation capability. The results show that company leaders actively utilize company's structures and processes to enhance the innovation capability. Company leaders encourage the followers to participate in problem -solving and to create suggestions for improvements in the company. Company leaders also use the available rewarding systems to engage the followers to innovative activities.

The results of this research indicate that the leadership has a strong and complex contribution to the case company's innovation capability. Regarding this observation it was surprising that only one of the interviewees brought up the need to educate the company leaders to support the antecedents of innovation capability.

6.2 Leaders' contribution to company's innovation capability

The results of this research indicates that the most common leadership style presented in the company is transformational leadership. Furthermore, motivating leadership and moral leadership styles were well presented in the results. Lee et al (2020) researched how different leadership styles influence follower's creativity and innovativeness and their research indicates that there are several leadership styles to choose to support follower's innovativeness and creativity and furthermore, the leaders should try to

customize their leadership style based on what they're trying to achieve (Lee et al, 2020, p. 16-18). In the previous literature regarding the leadership of innovation capability, transformational leadership style has been strongly associated with creativity and innovation (Lee, 2020; Jung, 2003; Gumuluoglu & Ilsev, 2009). All the interviewees described the company's innovation capability to be in a good level which is in line with the leadership styles adopted. As a foreseeable result, none of the interviewees described features relatable to negative leadership styles. Negative leadership styles, destructive and authoritarian leadership, are fundamentally increasing negative atmosphere in the organizations and naturally contributing negatively to innovativeness and creativity (Lee, 2020).

The results of this research indicate that motivating leadership was the second most common leadership style presented in the company. The result of this research indicates actions related to motivating leadership style, both empowering and entrepreneurial, but unexpectedly only one of the interviewees directly mentioned the importance of entrepreneurial orientation and activities on innovation capability. In the previous literature Hult et al (2004) emphasize the effect of entrepreneurial orientation on innovativeness and considers it as a major driver for innovativeness. As a result of this research could be assumed that the leaders have recognized the need to engage in entrepreneurial leadership style to promote entrepreneurial activities among the followers. This assumption was made because company leaders raised the need to activate followers to self-directed working methods and the results also indicates that the leaders should focus more on thinking about the next steps for the company and less on daily leadership activities.

Moral leadership style was quite well presented in the results of this study and especially authentic leadership was described during the interviews. Authentic leaders tend to build high-quality relationships with the follower's, increase the feeling of trust and encourage the followers to try new things without a fear of failure (Cerne, 2013). The results indicated that company leaders' acts as role-models to morally acceptable behavior

and by doing that they are supporting company's innovative culture and working environment.

This research shows that company leaders have recognized that leaders with technological or equivalent expertise can influence the innovation capability of the company by supporting innovation process and by showing example. This observation is in line with previous research presented in this thesis (Mumford, 2002). Moreover, in this research the company leaders raised an issue regarding leaders' profound participation to the projects. Leaders' participation was found to be away from the leadership work that would be expected from a senior manager for example, visualizing the company's future.

According to the results of this research the level of how impressive innovations are born and even expected, seemed to be different for production and research & development-functions. Innovations in the production organization were expected to focus on the processes and support the efficient usage of the resources available. In contrast with the production function the innovations from the R&D function were expected to be more significant and even game changers. From the leadership point of view this contradiction brings different challenges to the table. In production functions the encouragement for innovativeness is fundamentally different than in the R&D function where for example the role description requires innovativeness from the followers. Previous research on the effect of benevolent leadership styles effect on creativity (Wang, 2009) pointed out that benevolent leadership style is effective when followers have a strong creative role identity or when the level of autonomy experienced is high but benevolent leadership style was not shown on the results of this research.

In some level the different leadership styles and characteristics seems to be overlapping and similar themes can be found between transformational leadership, motivating leadership, and moral leadership. Furthermore, the different leadership styles can be used simultaneously or depending on the situation (Lee, 2020). The results of this research showed that leaders have recognized the need to educate and support followers to

innovative. Still only one interviewee raised the need to train company's leaders and managers leadership practices to contribute to the innovation capability of the company.

6.3 Reliability

To ensure the quality of the qualitative research, the reliability of the research need to be examined. In method literature the reliability of a research is usually handled through the concepts of validity and reliability. Validity refers to the accuracy of the data and considers if the research examines what it was meant to. Reliability of the research refers to the replicability of the study (Tuomi & Sarajärvi, 2002, p. 131-133). Reliability of a qualitative research can be examined through distinct phases of the research process which together forms a coherent entity. Even though the reliability of different stages of the research would be confirmed, the separate phases need to be consistent with each other (Tuomi & Sarajärvi, 2002, p. 135).

The reliability of a study can be assessed with credibility, transferability, dependability, and confirmability. Credibility means how well researcher's interpretations of the data are aligned with the interviewee's assumptions. Transferability refers to the ability to generalize research results. Dependability means considering the possibility of irregular phenomena that could impact the research. Confirmability means that the interpretations made by the researcher are supported by other research examining the same phenomena (Eskola & Suoranta, 1999, p. 212-213). The research and the research process of this thesis are assessed by using these four assessment dimensions as a guide to ensure the reliability of this research.

The basis of qualitative research is the researcher's subjectivity and the understanding that the researcher's preconceptions affect the research in some level. The reliability of this research was confirmed by accepting the fact that complete objectivity is not possible in qualitative research and the researcher have analyzed the results with keeping focus on what the interviewees have said and not blending own beliefs to the analysis.

In this research the credibility was confirmed through carefully describing the research method, data collection method and the data analysis method. Describing the methods used to collect and analyze the research data is important for evaluating the reliability of the results (Tuomi & Sarajärvi, 2002, p.20). To increase credibility, the researcher has tried to explain the process transparently and specifically in methodology chapter 4. The interview material collected was transcribed and the recording of the interview was available for the interviewee afterwards which increases the credibility. The transcriptions of the interviews or the interpretations were not handed over to the interviewees because as Eskola & Suoranta (1999) mentions it is unsure if that would increase the credibility of the research due the interviewees can be blinded by their own experiences (Eskola & Suoranta, 1999, p. 212). The interviews were conducted in Finnish and the transcriptions of the recordings were written in Finnish. This thesis is written in English, so the researcher has translated the samples used in the analysis into English. The translation from Finnish to English is partly decreasing the reliability of this thesis due the interpretation of the text can be different to native English- speaking readers or assessors.

The transferability of the research is confirmed by explaining how the research data is collected. In the research methodology the researcher has explain how the interviewees were selected, how the data was collected and how the data was processed to make conclusions of it. According to Eskola & Suoranta (1999) it is important to present the information unambiguously so that another researcher can make same interpretations of the data.

The interviews were well prepared, and all the interviews were conducted without distractions. To ensure the reliability of the interviews the interviewees were carefully selected, they were informed about the nature of the interview and researcher had sent the interview themes and questions to the interviewees beforehand. Giving the interview questions to the interviewees beforehand increases the reliability of the research

because it gives the interviewees a chance to decline the interview if they are not familiar with the research subject or does not have experiences of it which is important in the light of the selected interview method. The interviews were held during two weeks' timeline to ensure similar experience to all the interviewees. The saturation point was achieved with eight interviews which indicates the adequacy of the research data.

All the interviewees were selected from the same company as this research aims to understand the leadership practices of a certain company and to produce understanding of the company leaders' contribution to the company's innovation capability. The case company wish to remain anonyme and the interviewees remain anonymous to protect their privacy and due to the sensitivity of the subject. The anonymity was promised before the interviewees accepted the interview and some of the interviewees asked about it during the interview. The interviewees anonymity is justified with the sensitivity of the subject. Remaining anonymous supports the research agenda to understand the truth about leaders' experience of their own leadership style.

6.4 Suggestions for future research

This research focused on the company leaders' experiences on innovation capability and how the leaders assess their own leadership styles and practices. Another interesting research aspect would be to direct the research focus on the individuals or the teams of the company to understand how well the described leadership practices are aligned with the follower's experiences. Gaining understanding of the follower's needs and experiences of leaders' behavior and contribution would give valuable information of how to improve the leadership style to respond the needs.

The leaders interviewed for this research were selected from senior manager -level from different functions of the company. It would be beneficial to focus the research either on production function or research & development -function due to the differences between the nature of these functions but also due to the differences between the

employee backgrounds working in these functions. The differences between the needs impact the actions required from the leader to utilize the follower's innovative potential.

Company leaders recognized that one of the challenges regarding company's innovation capability is the length of the innovation process. The third future research approach could be related to the innovation process from leadership perspective. According to previous research different leadership behavior support followers' innovative behavior during the idea generation and idea application phases (De Jong & Den Hartog, 2007). Increasing leaders' understanding of the different behaviors impact on different phases of the process may help the leaders' to better understand what kind of support, knowledge or resources should be offered during different phases of the process.

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Appendices

Appendix 1. Interview letter and questionnaire

Hei!

Opiskelen Vaasan Yliopistossa kauppatieteiden maisteriksi kasvuyrityksen johtamisen maisteriohjelmassa. Pro gradu -tutkielmani aiheena on innovaatiokyvykkyyden johtaminen ja tutkin aihetta organisaatiossamme. Tutkimukseni tarkoituksena on teemahaastattelun avulla selvittää, miten organisaatiossa ymmärretään innovaatiokyvykkyys ja miten sitä johdetaan.

Teemahaastattelun teemat sekä haastattelurunko on muodostettu työn teoreettisen viitekehyksen aihepiireistä tunnistetuista keskeisistä teemoista. Teemahaastattelu on keskustelunomainen tilanne, jossa käydään läpi valitut teemat.

Haastattelut toteutetaan yksilöhaastatteluina teamsin välityksellä, haastattelut nauhoitetaan ja aineisto litteroidaan analyysiä varten. Haastatteluun on varattu aikaa 1 h.

Tutkimuksessa noudatetaan tutkimuksen tekemiseen liittyviä hyviä käytäntöjä sekä eettisiä periaatteita. Kaikki aineisto käsitellään luottamuksellisesti ja aineiston analyysissä pyritään siihen, että yksittäisiä haastateltavia ei kyetä tunnistamaan Pro gradu- tutkielmasta.

Haastateltavat on valittu organisaation Sr. Manager -tasolta ja haastattelut pyritään tekemään joulukuun loppuun mennessä.

Pyydän ilmoittamaan 25.11.22 mennessä hyväksytkö haastattelupyynnön ja milloin sinulla on kalenterissa aikaa haastattelua varten.

Haastattelun teemat

1. Innovatiivisuus
2. Innovaatiokyvykkyys
3. Innovaatiokyvykkyyden johtaminen

Haastattelukysymykset teemoittain

Perustiedot

- Asema organisaatiossa?
- Kuinka pitkään on työskennellyt organisaatiossa?

Teema 1: Innovatiivisuus

- Miten määrittelet innovatiivisuuden?
- Mitä merkitystä innovatiivisuudella on organisaatiolle?
- Miten organisaation innovatiivisuuteen voidaan vaikuttaa?

Teema 2: innovaatiokyvykkyys

- Miten määrittelet innovaatiokyvykkyyden?
- Mistä organisaation innovaatiokyvykkyys syntyy?
- Mitä merkitystä innovaatiokyvykkyydellä on organisaatiolle?
- Miten kuvailisit tämän organisaation innovaatiokyvykkyyttä
- Mitä merkitystä organisaatiokulttuurilla on innovaatiokyvykkyydelle?

Teema 3: Innovaatiokyvykkyyden johtaminen

- Miten kuvailisit organisaation tapaa johtaa innovaatiokyvykkyyttä? Entä omaa tapaasi?
- Mitä innovatiivisuuden johtaminen mielestäsi tarkoittaa?
- Mitä merkitystä johtamistyylilläsi on innovaatiokyvykkyyden syntymiseen?
- Mitä innovatiivisuuden johtaminen merkitsee sinulle?