

**LEADING INNOVATION:
THE ROLE OF LEADERSHIP SYSTEMS FOR THE LEADERSHIP OF
BOUNDARY SPANNING INNOVATION**

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Innovation is important. Motivating innovative activities and making them happen requires leadership. However: How exactly do organisations support the leadership of innovation? “Democratizing innovation” (von Hippel, 2005) has recently been proposed as the answer to this question. This new model is a radical departure from past practices of centralized research and development in which the innovative genii is sought in separate organizational units, project management designs and incentive systems. As a consequence, leading innovation becomes a truly boundary-spanning challenge. This paper argues that a better bridge is needed between the needs and challenges of leading boundary spanning innovation and the practices, instruments and systems (i.e. leadership systems) that large companies use to support their leaders.

1 Introduction

It is clear that innovation is important (Kilroy, 1999; Roberts, 1999); research has demonstrated in particular how new products facilitate the survival of firms and contribute to broader social welfare (Chaney & Devine 1992; Debruyne et al. 2002). Many argue, however, that organizations do not focus enough on future oriented activities. As Peter Drucker says: “Today no one needs to be convinced that innovation is important – intense competition, along with fast changing markets and technologies, has made sure of that. How to innovate is the key question” (Drucker 1988, p. 149). However: How exactly do organisations support the leadership of innovation?

“Democratizing innovation” (von Hippel, 2005) has recently been proposed as the answer to this key question. This new model is a radical departure from past practices of centralized research and development in which the innovative genii is sought in separate organizational units, project management designs and incentive systems. As a consequence, leading innovation becomes a truly boundary-spanning challenge. This paper argues that a better bridge is needed between the needs and challenges of leading boundary spanning innovation and the practices, instruments and systems (i.e. leadership systems) that large companies use to support their leaders. This paper contributes to the literature by addressing the following research question: What is it that companies do (or do not) to support their leaders to cope with the increasing challenges of leading boundary spanning innovation?

2 Background

With a few notable exceptions, the literature on leadership has had little to say about leadership systems as strategic tool to support leading boundary spanning innovation¹. (Ulrich et al., 1999) developed the “result-based leadership approach”. (Charan et al., 2001) are dealing with the concept of “leadership pipeline”. The concept of “leadership engine” (Tichy and Cohen, 1997) and the concept of “cycle of leadership” (Tichy and Cardwell, 2002) are oriented towards a better understanding of leadership systems. However, to support leaders in leading innovation within and across organizational boundaries we identify a need to deepen leadership research in the following directions:

¹ For an in-depth review of the literature see: Möslin, 2005; Munshi et al., 2005.

- The need to move from traditional ‘leader research’ to a more organisation orientated ‘leadership research’ (e.g. Yukl, 1989; Day, 2000; Lowe and Gardner, 2000);
- The challenge of moving from the traditional focus on ‘leadership *in* organizations’ towards a research focus that is more orientated towards ‘leadership *of* organizations’ and ‘*across* organizations’ (e.g. Boal and Hooijberg, 2000; Yukl, 2001; Daft, 2002);
- The need to take into account emerging forms of ‘distributed leadership’ (delegated leadership, co-leadership, peer-leadership or shared leadership) to assure organisational innovation and change (e.g. House and Aditya 1997; Gronn 2002; Hiller 2002).

These challenges for future leadership research respond to the increased demands and capabilities of individuals in organisations (Gratton, 2004); they emphasise a need for leaders to be more flexible and more responsive to local circumstances, and to recognise the importance of micro-processes in achieving and creating innovation (Johnson and Huff, 1998). While leaders still adopt older ‘command and control’ techniques, and occasionally these are effective and appropriate, the increasing scale, speed and globalising complexities of organisational life raise additional challenges for organisations. Therefore, we promote the development of leadership systems that support the needs of leaders when leading innovation across organizational boundaries.

3 Methods

The aim of this study is attempting to bring about the development and refinement of understanding how organizations can support leaders in their challenge to lead boundary-spanning innovation. To achieve this, qualitative research is found to be the appropriate research methodology as it helps to identify causal relationship and phenomena in a specific field which has not been studied in detail until now (Bortz and Döring, 2002: 386).

Table 1: Participating companies

Companies in the sample		
• Allianz Gruppe	• Deutsche Börse	• MAN Gruppe
• Audi	• Deutsche Telekom	• Marsh
• BAE Systems	• E.ON Energie	• Münchener Rück
• Bayerische LB	• Fairchild Dornier	• Philip Holzmann
• BayWa	• Hewlett Packard	• Philips
• Bertelsmann	• HypoVereinsbank	• Roland Berger
• BMW	• IBM	• SAP
• BSH	• INA Schaeffler	• Siemens
• British Telecom	• JPMorgan Chase	• Südchemie AG
• ChevronTexaco	• Krones	• Transco
• Cisco Systems	• Leoni	• TUI Gruppe
• DaimlerChrysler	• Liberty Mutual	
• Deutsche Bank	• Lufthansa	

During the period from autumn 2001 to spring 2003, 37 multinational companies participated in this qualitative study on leadership systems (Möslein, 2005). Table 1 gives an overview of the participating firms. We now reviewed the original data under the lense of boundary-spanning innovation and we feel that our results can provide a fresh perspective on how to support the leadership for innovation as requested in recent studies (e.g. Munshi et al., 2005).

Considering the possible bias of interviewing top managers, i.e. the self-portrayal-rhetoric of the interviewees and their perception of the company reality², the interview partners were chosen according to their overall strategic knowledge of the company to come closest to the topic of research interest. In a first step, 112 top managers were interviewed; each interview has taken approximately two hours. These interviews allowed receiving a clear understanding of the used instruments, systems and strategies of a company towards the development of leadership strengths (i.e. “leadership systems, in place”). Additionally, control interviews with selected line-managers and participants of leadership development programs allowed identifying the „leadership systems in use“.

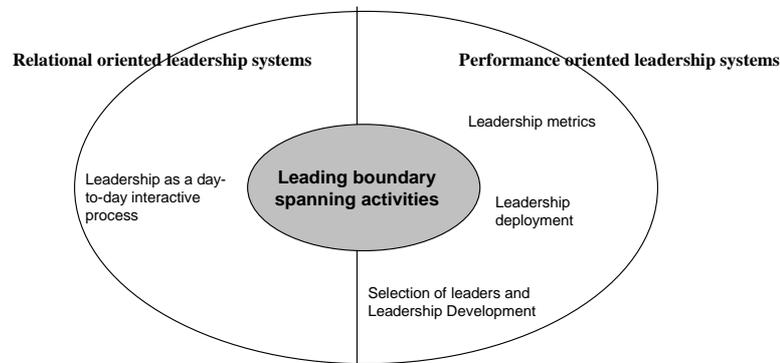
The relevant leadership system constructs were identified using qualitative content analysis (Mayring, 2000), an analytic method that consists of three steps: summarizing, explication and structuration. All interviews were transcribed. Atlas.ti, which is a computer assisted qualitative data analysis software package to handle non-numerical and unstructured qualitative data, supports the interpretative approach to data analysis. The result of the content analysis was material grouped by clusters that is sufficiently homogenous and distinct from the other clusters. The next step of the analysis involved reviewing the clusters and the links between them with experts from research and practice. Finally, iterative feedback-rounds with experts in the field of leading and leadership research were undertaken to review the clusters with a view to creating a conceptual framework that would determine the structure of this article. Therefore, the arguments presented below have been subjected to a wide-ranging scrutiny and refined accordingly. Nevertheless, these findings should be seen as interim statements within an ongoing and developing story. The qualitative data set will continuously be expanded in the light of adding quantitative findings, and it must be expected that the existing clusters will be gradually refined and probably new clusters will emerge.

4 Findings

What emerged from the data analysis was a picture of leadership systems that allowed for a deeper view of the clusters that determine and influence the way in which organizations supports the leadership of boundary-spanning innovation. The above process resulted in the model of “leadership systems” (see figure 1). Our emergent picture of leadership systems has two parts. The first identifies the relational-oriented leadership instruments, i.e. instruments that primarily support the day-to-day interaction of the leading process (leadership as day-to-day interactive process). The second identifies the performance-oriented leadership instruments:

- Instruments that are used for the measurement and evaluation of leadership performance (i.e. leadership metrics)
- Instruments that are used to more broadly develop leadership capacity in the organization (i.e. leadership deployment)
- Instruments used for the selection and training of leaders to build a more stable basis of excellent leadership talents (i.e. selection of leaders and leadership development).

Figure 1: Model of leadership systems



² See f.i. Korukonda and Hunt 1991 and Easterby-Smith, Thorpe and Lowe 2002.

Leadership as a day-to-day interactive process: In the context of this paper, leadership as a day-to-day interactive process deals with the question of how leaders can be supported in leading innovation across boundaries by a leadership system. A leadership system for this purpose may take many shapes and forms. The way in which and the frequency with which leaders communicate, for example, are obvious components that need to be considered. As shown by Mintzberg (1973) leadership means communication (see also Reichwald and Goecke, 1997). (Möslein, 2005) shows that organisations support their leaders by offering a relational oriented leadership system focussing on various communication channels and controlling instruments in the day-to-day interactions. However, the degree to which communication is used varies across the studied organisations. In many organisations the principles, values and beliefs of the organisation and its members are more important foundations of the leadership system than “hard” management tools like target setting processes, balanced scorecard or coaching. In particular we can assume that, as leading boundary-spanning innovation implies managing complexity and interdependencies, leaders who can rely on rooted organisational values and identify with them, might be more successful than those without the support of such a leadership system.

Leadership metrics: Leadership metrics, of course, also play a powerful role as leadership system supporting the leadership of boundary spanning innovation. Performance oriented leadership systems deal with the question of how to measure leadership, how to incentivise leaders and how to further develop their leadership strengths. Leaders who are surrounded by an organisational environment that gives a clear guidance of how their performance will be measured might be more effectively in leading across boundary-activities. In literature, several approaches to measure intellectual capital (see Choo and Bontis, 2002) can be found. However, although several of these approaches are used in practice, even the most often applied measurement approach (i.e., target evaluation) is only used in half of the studied companies. Statements like “we don’t measure leadership. We measure results. Financial markets define the critical metrics“ underline the need to shift towards a leadership and innovation oriented metrics rather than the to date predominant overall organisational performance leadership metrics.

Leadership deployment: (Winter, 1997) argues that a leadership system in terms of leadership deployment has to fulfil three functions: (i) motivation, (ii) selection, and (iii) coordination. Only if these three functions are considered equally in the design of a leadership system, the organisation will be able to support boundary-spanning leadership characterized by a high degree of complexity and interdependencies. Although the companies in the research panel do have differentiated incentive systems, only a few of these systems are transparent and use the whole range of monetary and non-monetary incentive systems. In addition, they usually seem to higher incentivise performance than innovation, which poses interesting questions for a firm’s current and future innovative capacity.

Selection of leaders and leadership development: In management practice, the systematic creation of boundary spanning leaders is becoming one of the strategic resources of multinational companies (e.g. Fulmer and Goldsmith, 2001). Large companies usually have implemented practices for identifying leadership talents, instruments for promoting these talents to excellence, practices to foster individual engagement and initiative taking, often via self-selection and self-development (Reichwald et al., 2005). Our study clearly showed a dominance of informal approaches for the selection of leaders, contrasted by a dominance of formal approaches for leadership development. In the feedback discussions interview partners were surprised, but confirmed and criticized the low use of "mentoring", "job rotation", "assessment centres" for development and recruiting and especially of "succession planning" combined with "organizational development". These are HR practices that – combined in a leadership system – would support and prepare leaders for the inherent challenges in across-boundary innovation.

5 Implications and Conclusion

Several scholars have recently highlighted the benefits of opening up the innovation process (see, e.g., Chesbrough, 2003; Gassmann & Enkel, 2004; Piller, 2005; von Hippel, 2005). The central insight is that by encouraging and considering the ideas and solution knowledge of a large number of individuals across organizational boundaries, new creativity can be brought into the organization. The practical benefits of this overall approach can be seen in the success of open source software, such as Linux. Weber (2004) observes that a dominant capability of open source software development systems is to incorporate the "wisdom of the periphery" (Weber 2004, p. 225). This observation also fits with other conversations about the human resource benefits of designing *democratic enterprises* (Gratton, 2004) and drawing on employees’ tacit knowledge (Nonaka & Takeuchi, 1995).

This article is an attempt to provide a holistic view of and to foster a discussion about leadership systems to support the leadership of innovation across boundaries. We have argued that with the increase of boundary spanning and “democratized” innovation organisations have realised the importance of implementing leadership systems that support the leadership of these activities. The significant further issue that this research identifies is that the relevance of both the relational- and performance oriented leadership systems are often, to a large extent, identified by the organisations. However, the practical implication to be drawn from the examples and arguments presented here is that the effective, systematic and deliberate implementation and use of these systems is still lacking in organisational practice. In order to generate and sustain leadership in the face of global pressure, we argue that more research is needed in the search for leadership systems that are able to support leaders in the challenges of innovating across corporate boundaries in the 21st century.

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