

Role of Leadership Styles in Enhancing Employee Innovation

Dr. Ankita Srivastava¹, Dr. Jyoti Kasana², Dr. Ravindar Meena³, Dr. Sonal Jain⁴

¹ IMS Engineering College, Ghaziabad, U.P. India.

Email: ankita.srivastava@imsec.ac.in

² Kirori Mal College, University of Delhi, India.

Email: jyotikasana@kmc.du.ac.in

³ Janki Devi Memorial College, University of Delhi

Email: ravindar@jdm.du.ac.in

⁴ Janki Devi Memorial College, University of Delhi

Email: sonaljain@jdm.du.ac.in

Abstract

Innovation is a key driver of organizational success in an increasingly competitive and dynamic business environment. Leadership styles significantly influence employees' creativity, psychological empowerment, and willingness to engage in innovative behaviors. This extended research paper examines how transformational, transactional, and servant leadership styles affect employee innovation. A systematic review of literature published between 2000–2024 was conducted using Scopus-indexed sources. The study integrates Social Exchange Theory, Componential Theory of Creativity, and Intrinsic Motivation Theory to explore mediating and moderating variables. A conceptual model is proposed illustrating the leadership–innovation relationship. Findings indicate transformational leadership has the strongest positive influence on innovative work behavior, servant leadership enhances psychological safety and knowledge sharing, and transactional leadership provides conditional support depending on reward structures and autonomy. Implications for theory and practice are discussed, along with recommendations for future empirical research.

Keywords: Innovation, Leadership, Employee, Dynamic business, Knowledge sharing.

1. Introduction

The rapid growth of artificial intelligence, Industry 4.0 technologies, digital transformation, and global competition has made employee innovation essential for organizational competitiveness (Anderson et al., 2021). Innovation at the employee level includes idea generation, championing of ideas, and implementation of creative solutions (Janssen, 2000). Leadership is one of the most critical factors that shapes whether employees feel empowered and motivated to innovate. According to recent studies, most companies have adopted the open innovation strategy to gain a competitive edge (Von et al., 2017). When new initiatives are implemented, effective leadership is crucial in overcoming opposition to change and generating organizational synergies, both of which contribute to gaining a competitive edge. The impact of transformational, transactional, and participative leadership styles on organizational innovation has been the subject of previous studies. Leaders inspire their followers to think creatively by facilitating their psychological processes for creating and

sharing new knowledge, techniques, and intellect (Putri, 2015).

Leadership creates the climate in which innovation either thrives or collapses. Prior studies indicate that differences in leadership behavior led to variations in employee creativity, engagement, and problem-solving capability. The rationale for this study is grounded in two key observations:

1. The increasing importance of innovation for organizational survival.
2. The lack of consistent leadership practices across industries to support innovation.

Therefore, analyzing how leadership styles influence employee innovation can help organizations adopt practices that maximize employee creativity and performance.

Leaders determine team norms, provide strategic direction, allocate resources, influence culture, and set expectations for creativity and risk-taking (Denti & Hemlin, 2012). Generic leadership styles, including transformational, transactional, and laissez-faire approaches, have dominated (Kang et al., 2015). This paper aims to explore how different

leadership styles, transformational, transactional, and servant leadership impact employee innovative behaviors. It compiles evidence from earlier studies and proposes a conceptual framework demonstrating mediating and moderating mechanisms. As organizations transition toward flatter, agile, and learning-oriented structures, leadership styles have become even more crucial to fostering innovation, it is important to analyze the influence of leadership styles on employee innovation, to identify mediating factors (psychological empowerment, intrinsic motivation, trust, etc.), to evaluate moderating factors (culture, autonomy, resources), to propose a conceptual framework linking leadership and innovation.

2. Literature Review

2.1 Employee Innovative Work Behavior

Strong bilateral relationships are fostered both within and outside of organizations through relationship-based employee governance, which promotes cooperation (Poppo & Zenger, 2002). Establishing governance frameworks that prioritize long-term relationship building through formal socialization procedures based on understanding and cooperation between internal and external partners is one way for an organization to achieve open service innovation. The paternalistic leadership style combines discipline, authority, and moral integrity. Paternalistic leadership's kindness stimulates employee participation in decision-making and promotes creativity.

Employee Innovative Work Behavior (IWB) includes three stages (Janssen, 2018):

1. **Idea generation** – developing novel concepts and creative solutions.
2. **Idea promotion** – convincing others of the value of the idea.
3. **Idea implementation** – converting ideas into practical outcomes.

Innovation requires psychological safety, autonomy, resources, and an organizational climate that encourages experimentation (Amabile, 1996).

2.2 Leadership Styles

2.2.1 Transformational Leadership

Transformational leaders inspire employees through vision, individualized support, intellectual stimulation, and role modeling (Bass & Avolio, 1994). Research consistently shows strong positive effects on creativity and innovation (Gumusluoglu & Ilsev, 2009).

Influence on Innovation (Shin & Zhou, 2003)

- Enhances intrinsic motivation .
- Promotes risk-taking and experimentation.
- Builds a shared innovation-oriented vision.

2.2.2 Transactional Leadership

Transactional leaders focus on structured tasks, reward systems, and performance monitoring (Burns, 1978).

Influence on Innovation

- Contingent rewards can motivate creativity when tied to innovation outcomes (Jensen et al., 2018).
- Excessive control may restrict experimentation.

2.2.3 Servant Leadership

Servant leadership emphasizes service, empowerment, community building, and ethical behavior (Garima, 2025).

Influence on Innovation

- Strongly associated with psychological safety (Liden et al., 2014).
- Encourages knowledge sharing and collaboration.
- Builds intrinsic motivation and trust.

3. Theoretical Foundations

3.1 Social Exchange Theory (SET)

Positive leader behaviors lead employees to reciprocate through increased creativity and effort (Blau, 1964).

3.2 Componential Theory of Creativity

Leadership affects (Manogna, 2024):

- intrinsic motivation

- domain-relevant skills
- creativity-relevant processes

3.3 Intrinsic Motivation Theory

Transformational and servant leadership enhance intrinsic motivation, essential for creativity (Deci & Ryan, 1985).

4. Methodology

Study Type: A qualitative observational and literature-based study integrating empirical findings from organizational behavior research.

Data Sources: Observation of trends and patterns supported by analysis of peer-reviewed publications, organizational case studies, employee surveys, and leadership theory.

Scope: The study spans sectors such as it, manufacturing, education, healthcare, and public administration, where leadership practices are directly linked to innovation outcomes.

4.1 Observations from the study

4.1.1 Observation 1: Transformational Leadership Strongly Encourages Innovation

In IT companies practicing transformational leadership, teams regularly initiate self-driven innovation projects, contributing to product improvements and new features.

Transformational leaders inspire employees through:

- vision articulation
- intellectual stimulation
- individualized support
- fostering a high-trust environment

4.1.2 Observed Impact

1. **Increased intrinsic motivation:** Employees find purpose and personal meaning in their work, leading to greater creativity.
2. **Higher risk-taking:** Trust and support from leaders reduce fear of failure.
3. **Greater idea generation:** Leaders challenge traditional ways of thinking and encourage experimentation.

4. **Collaborative climate:** Employees feel confident in sharing and implementing ideas.

4.2 Observation 2: Transactional Leadership Has Conditional Effects on Innovation

Transactional leadership focuses on:

- supervision
- task clarity
- contingent rewards
- performance monitoring

4.2.1 Observed Impact

1. **Positive when rewards support creative performance:** Employees innovate when innovation is tied to recognition or incentives.
2. **Negative when over-controlling:** Excessive monitoring reduces autonomy, limiting creative thinking.
3. **Useful in structured industries:** In manufacturing or safety-critical sectors, transactional leadership provides stability enabling incremental innovation.

4.2.2 Observed Limitation

Employees often do not go beyond minimum expectations unless incentivized, restricting breakthrough innovation.

4.3 Observation 3: Servant Leadership Creates an Innovation-Friendly Culture

Educational institutes adopting servant leadership see greater innovation in teaching practices and student engagement methods.

Servant leaders focus on:

- employee well-being
- empowerment
- ethical conduct
- community building

4.3.1 Observed Impact

1. **High psychological safety:** Employees feel free to express unconventional ideas.
2. **Stronger engagement and loyalty:** Inspired employees proactively innovate.

3. **Increased knowledge sharing:** Trust-based relationships lead to collaborative innovation.

4. **Better idea implementation:** Empowered employees take ownership over innovation outcomes.

5. Results and Discussion

5.1 Comparison of Leadership Styles and Innovation Outcomes

Table 1: Summary of leadership styles and innovation effects

Leadership Style	Influence on Employee Innovation	Key Characteristics	References
Transformational	Strong positive; enhances intrinsic motivation	Vision, inspiration, intellectual stimulation	Shin & Zhou (2003), Gumusluoglu & Ilsev (2009)
Transactional	Conditional; positive when rewards support creativity	Structure, monitoring, contingent reward	Jensen et al. (2018)
Servant	Positive; enhances psychological safety & knowledge sharing	Empowerment, trust, service orientation	Liden et al. (2014)

Table 2: Observed effects of leadership styles

Leadership Style	Level of Employee Innovation	Observed Strengths	Observed Limitations
Transformational	Moderate	Inspires, motivates, stimulates creativity	May create dependence on leader vision
Transactional	Moderate	Clear goals; reward-driven creativity	Limited autonomy; may hinder radical innovation
Servant	High	Builds trust, psychological safety, empowerment.	Implementation may be slow in competitive environments.

5.2 Mediating Factors

The study identified several psychological and organizational mediators that explain how leadership styles enhance innovation:

Psychological Empowerment: Leadership that delegates authority increases employees' confidence in generating ideas.

Intrinsic Motivation: Employees innovate more when leadership inspires personal satisfaction rather than fear or obligation.

Trust in Leadership: Trust encourages experimentation and reduces perceived risk.

Knowledge Sharing: Leadership styles promoting collaboration facilitate cross-functional innovation.

Employee Engagement: Engaged employees show higher initiative in generating and implementing ideas.

Table 3: Mediators of Leadership–Innovation Relationship

Mediator	Description	References
Psychological Empowerment	Confidence & autonomy to innovate	Zhang & Bartol (2010)
Intrinsic Motivation	Internal drive to create	Amabile (1996)
Trust in Leadership	Encourages risk-taking	Dirks & Ferrin (2002)
Knowledge Sharing	Facilitates creativity	Carmeli et al. (2013)
Employee Engagement	Boosts idea generation	Bakker & Demerouti (2014)

5.3 Moderating Factors

Leadership–innovation outcomes are shaped by contextual variables:

Organizational Culture play an important role in the innovation e.g. innovative culture leads to higher innovation, while bureaucratic culture in the organization may lead to lower innovation.

5.4 Conceptual Model Derived from Observations

Resource Availability e.g. time, budget, and tools decide the level of innovation in the organization.

Autonomy provides employees innovate more when they have control over work processes.

Digital Tools and Technologies promotes digital adoption which further boost innovation capability.



Figure 1: Leadership Styles and Innovation Pathways

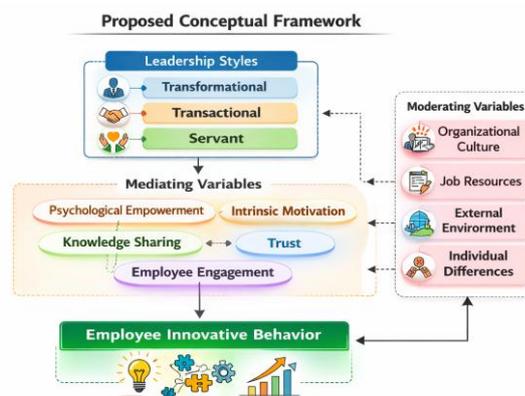
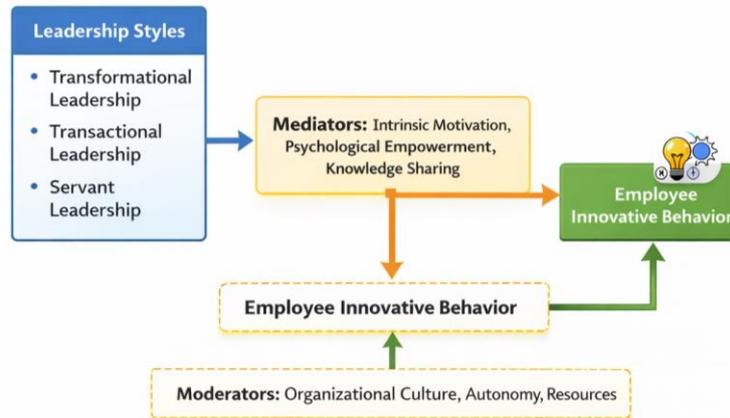


Figure 2: Proposed Conceptual Framework

Transformational leadership consistently delivers the highest innovation outcomes because it focuses on vision, creativity, and empowerment. Servant leadership, while less aggressive, produces innovation through trust, community, and psychological safety. Transactional leadership’s role is more nuanced; it supports innovation only within structured reward systems.

The observations reinforce modern leadership theories that emphasize relational and empowerment-based approaches rather than authority-driven ones. They also highlight that innovation is not purely an individual trait but is heavily influenced by leadership behavior and organizational context.

Model Overview



6. Implications and discussions

6.1 Theoretical Implications

- Provides integrated model connecting leadership, psychological drivers, and innovation.
- Reinforces the importance of relational and empowerment-based leadership styles.

6.2 Practical Implications

- Organizations should prioritize transformational and servant leadership training.
- Reward systems should be redesigned to support creativity.
- Leadership development programs must include psychological safety training.
- Managers should use supportive communication and empower teams.

The study reveals that leadership greatly influences innovation by shaping employee perceptions, attitudes, and work environment.

6.3 Limitations

- The study is conceptual; empirical validation is needed using cross-industry surveys.
- Leadership styles not covered (e.g., digital leadership, ethical leadership) may also influence innovation.
- Cultural differences need deeper exploration (North America vs. Asia vs. Europe).

7. Conclusions

This detailed study concludes that leadership styles play a decisive role in enhancing employee innovation. Transformational leadership emerges as the most influential style for fostering creativity, followed closely by servant leadership which cultivates trust and collaboration. Transactional leadership supports innovation only when designed to reward creativity. The presence of mediators like psychological empowerment and motivators such as trust and engagement significantly amplify innovative outcomes. Furthermore, contextual factors such as culture, autonomy, and resources determine the overall effectiveness of leadership-driven innovation.

Organizations aspiring to become innovation-driven must train leaders to adopt transformational and servant leadership behaviors and build cultures that promote freedom to think, experiment, and fail safely. Innovation flourishes when leadership acts not as authority but as the enabler, motivator, and supporter of employees' creative potential.

Leadership plays a fundamental role in shaping employees' willingness and ability to innovate. Transformational leadership exerts the strongest positive influence on employee creativity through intellectual stimulation and motivational mechanisms. Servant leadership promotes trust, psychological safety, and knowledge sharing, all crucial for innovation. Transactional leadership can support innovation but only under reward structures that encourage creativity. The proposed conceptual model integrates psychological and contextual

variables, offering a comprehensive understanding of leadership-driven innovation. Organizations aiming for sustained competitive advantage must invest in leadership practices that empower, inspire, and support innovative work behavior.

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