CHAPTER 1

1.0   Introduction

In this chapter, the background of the research paper is presented, followed by the research problem and questions. It also includes objective, scope and significance of the study.

1.1   Background of the study

The rate of change is accelerating rapidly due to increase of global diffusion, technology and knowledge revolution. In high velocity business change, organizations need to be more flexible, adaptive, entrepreneurial and innovative in order to meet the changing demands of today's environment effectively. Innovation becomes the key determinant for an organization to achieve sustainable competitive advantages and, by extension for the success of businesses.

As per the Global Innovation Index by INSEAD, Malaysia was ranked at 32 in terms of our enabling environment to innovation and innovation outputs in year 2011. The level of innovation in Malaysia is in deteriorating trend; its ranking has been dropped from 25 to 28 from year 2009 to year 2010. Subsequently it dropped to 32 in year 2011. Our Prime Minister Datuk Seri Najib Tun Abdul Razak has announced innovation as part of the key national agenda; and urged all industries in both public and private sector to be innovative. In particular the innovation is more crucial to private sector for organizations to survive in highly

competitive global economy. In order to help private sector in developing innovation, the government provided a conducive ecosystem in 2011 budget strategy as to facilitate the organization to undertake risks and seize opportunities.

Many authors indicated that leadership and culture are fundamental components to establish an innovative organization. Leaders create an institutional framework in which creativity and innovation are accepted as basis cultural norms by organization members in the midst technological and other changes. For example the innovative leader Steve Jobs, the former Apple's CEO has successful leading the company to achieve innovation. During Jobs' absence from 1986-1998, Apple's innovation premium has dropped from 37% to negative 31%. When Jobs returned in 1998 he restructured his team with senior managers who possessed a rich mix of strong discovery- and delivery-driven skills, and as a result the company churned out hit after hit, from the iMac and iTunes to the iPad, iPhone, and iPad. This has proven the importance of leadership in creating innovative organization. Apple has taken a few years to get things back on track, and its innovation premium jumped to 52% in 2010. However with Job's death now, many are wondering whether Apple can keep its innovation engine humming.

Accordingly, this study examines the theoretical linkages in term of relationship between transformational leadership and climate for organizational innovation,

with the inclusion of organizational culture as mediator variable in private sector in Malaysia. This was supported by previous research findings that organizational culture mediates the relationship between transformational leadership and organizational innovation (Amabile, Conti, Coon, Lazenby, & Herron, 1996; Deshpande, Farley, & Webster, 1993; Jassawalla & Sashittal, 2002; Prather & Turrell, 2002).

1.2   Statement of problem and research questions

Many businesses in private sector fail to survive in the market due to fierce competition and lack of innovation. In today competitive business environment, organizations must constantly create new products/ services to attract their customers. This is because the life cycle of product has shortened due to rapidly changing technology. In addition, the innovation works are easily copied by competitors. Thus the organizations must always stay innovative and differentiate their products/ services from its competitors in order to gain sustainable competitive advantage and profitability.

In today's fast-paced business environment, creativity and innovation is a prerequisite for success and perhaps even for survival especially in private sector. The components of an effective innovation system include:

- clarity in mission statements and goals

- an organizational culture that values innovation

- adequate resourcing of innovation

- leadership and management support

- placing of responsibility for innovation on all staff.

- enriched physical workplace that enhances creativity

- the instigation of incentives and rewards for innovative individuals and teams and many other factors

The following research questions are the guidance of study:

I) What is the relationship between transformational leadership and climate for organizational innovation?

II) What is the relationship between transformational leadership and a competitive, performance oriented organizational culture?

III) What is the relationship between a competitive, performance oriented organizational culture and climate for organizational innovation?

IV) Does competitive, performance oriented organizational culture mediate the relationship between transformational leadership and climate for organizational innovation?

1.3   Objectives of the study

The overall objective of this research is to contribute to the understanding about the relationship between transformational leadership and climate for organizational innovation in private sector in Malaysia; and other factor e.g. organizational culture that may influence this relationship.

The specific objectives of the study are:

I) To examine the relationship between transformational leadership and climate for organizational innovation in private sector in Malaysia

II) To examine the relationship between transformational leadership and a competitive, performance oriented organizational culture in private sector in Malaysia

III) To examine the relationship between a competitive, performance oriented organizational culture and climate for organizational innovation in private sector in Malaysia

IV) To identify the factor that can mediates the relationship between transformational leadership and climate for organizational innovation in private sector in Malaysia

Lastly this information can be used as guideline and recommendation for managers in private sector as how to enhance employees' perception of organization support for innovation, and stay competitive and excel in the industry.

1.4 Scope of the study

The scope of study encompasses 200 managers from private organizations in Klang Valley, Malaysia. There will be no specific criteria in selecting managers as the study will be carried out on all organization types, functions, gender, age group etc using non-probability convenience sampling method. However the

respondent must work in private sector in Malaysia environment context regardless it is a local or multinational company.

1.5   Significance of the study

The study provides important information to the understanding of the influence of transformational leadership on climate for organizational innovation. It shows the relationship of each transformational leadership behavior with climate for organizational innovation in private sector in Malaysia. Subsequently, it helps to determine which of the transformational leadership behavior has the strongest influence to climate for organizational innovation.

The study adds important information to our understanding about the influence of transformational leadership to organizational culture. It also determines which of the transformational leadership behavior has the strongest influence to competitive and performance orientated organizational culture in private sector. In addition, the study contributes to better understanding of the organizational culture factor influencing the relationship between transformational leadership and climate for organizational innovation.

Lastly, the findings of this study can serve as guideline in the management effort to create climate for organizational innovation as to enhance employees' innovative behavior. The management can better understand the roles of

leadership and organizational culture in increasing employees' perception of organization support for innovation.