WHAT MAKES SMALL- AND MEDIUM-SIZED ENTERPRISES PROMOTE ORGANIZATIONAL CREATIVITY: THE CONTINGENCY PERSPECTIVE

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In this study, we examined the effects of chief executive officer (CEO) characteristics and organizational systems on organizational creativity, particularly in small- and medium-sized enterprises (SMEs). Using upper echelon and contingency perspectives, we hypothesized that CEO characteristics would promote organizational creativity in SMEs, but the effect of CEO characteristics would be attenuated when SMEs have strong organizational learning systems in place. Consistent with our expectations, the results show that a CEO’s orientation toward employee development plays an important role in organizational creativity. Moreover, the effect of CEO development orientation on organizational creativity is greatest when the organizational system is weak. Theoretical and practical implications are also discussed.

Keywords: organizational creativity, small- and medium-sized enterprises, chief executive officer characteristic, organizational system.

In today’s dynamically changing environment, creativity is crucial if organizations, especially small- and medium-sized enterprises (SMEs), are to survive, perform effectively, and maintain a competitive advantage (Amabile, 1988). However, most empirical studies have been focused on the drivers that lead to individual or team creativity (Shalley, Zhou, & Oldham, 2004). Despite

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the importance of creativity at the organizational level (Zhou & Shalley, 2008), an empirical examination of organizational creativity does not appear in the literature. Instead, the preponderance of empirical research on organizational-level creativity has been focused on organizational innovation (Woodman, 2008). However, innovation should be treated differently from creativity because creativity involves the generation of novel and useful ideas, whereas innovation is the successful implementation of the creative ideas generated (West, 2002).

Given the lack of creativity studies at the organizational level to date, the main focus in our study was the drivers of organizational creativity in the contexts of SMEs, the organizations in so-called creative industries (Caves, 2000) where creativity is the foundation of the company identity.

Organizational creativity is often attributed to the personal characteristics of the chief executive officer (CEO), according to the upper echelon perspective. Given the nature of SMEs (a small number of employees and a low level of organizational hierarchy), the effects of the CEO’s personal characteristics on the organizational outcome in SMEs are far more influential than are their effects in large firms, as the CEO effect would likely be much clearer (Lubatkin, Simsek, Ling, & Veiga, 2006). Central to the upper echelon perspective is the premise that organizational outcomes are a reflection of the traits and abilities of top executives in the organization (Hambrick & Mason, 1984). According to the upper echelon perspective, complex decision-making in organizations is largely influenced by the decision-maker’s psychological factors, such as their values and beliefs, rather than economic optimization (Barnard, 1938). Thus, Hambrick and Mason (1984) stress the role of top executives in determining strategic choices and actions in organizations and call attention to systematic studies in which the effects of the top manager’s persona on organizational performance are revealed.

Although later scholars met the challenges laid out by Hambrick and Mason (1984), a significant number of researchers have limited themselves to examining the role of the top managers’ characteristics using only demographic proxies to infer their psychological traits (see e.g., Hayward & Hambrick, 1997). This was deemed necessary partly because collecting direct measures of a CEO’s characteristics is challenging work. However, relying solely on archival data can mask the true relationship between a CEO’s personal traits and organizational performance. For example, Park (1998) found that technological innovation was significantly related to the CEO’s psychological characteristics (e.g., entrepreneurial beliefs), whereas no relationship with CEO demographic variables was found. While some scholars have included psychological measures of executive characteristics (e.g., Simsek, Heavey, & Veiga, 2010), our understanding of the effects of the CEO’s psychological characteristics on organizational creativity remains limited.
Hence, in our study we aimed to examine whether a CEO’s personal characteristics influence organizational creativity in SMEs. Of these personal characteristics, we proposed that the CEO’s development orientation would be a key individual psychological characteristic that can influence organizational creativity in that the CEO who is oriented toward employee development will encourage employees to apply new skills on the job and enhance organizational creativity. Furthermore, we adopted a contingency perspective to investigate whether the influence of CEO orientation on organizational creativity is dependent on the organizational context. The contingency perspective provides a more precise and specific understanding of the organizational context by introducing moderators into bivariate relationships (Rosenberg, 1968), and previous researchers have proven the importance of this perspective in investigating how the CEO influences organizational outcomes (see e.g., Blettner, Chaddad, & Bettis, 2011). Accordingly, using this perspective as a theoretical lens, we aimed to determine the organizational learning system under which a CEO’s development orientation is particularly beneficial (or detrimental) to organizational creativity. We proposed that organizational creativity would be a function of a powerful individual’s psychological characteristics as well as the organizational context.

Literature Review and Hypotheses

CEO Development Orientation and Organizational Creativity

According to Hambrick and Mason’s (1984) model upper echelon perspective, top executives play a pivotal role in shaping major organizational outcomes. From this perspective, executives are seen to act on the basis of their understanding of the circumstances they face and these personalized interpretations are a function of the executives’ personalities and prior experiences (Carpenter, Geletkanycz, & Sanders, 2004). The theory behind the upper echelon perspective centers on executive cognitions, values, and perceptions and their influence on the process of strategic choice and resultant performance outcomes. We believe this perspective is particularly applicable to small firms where the CEO exercises more control over the firm. Previous researchers have shown that CEOs with an internal locus of control were associated with the success of small firms and new ventures (Brockhaus, 1980). More recently, CEO regulatory foci of small business were found to be related to firm performance (Wallace, Little, Hill, & Ridge, 2010). Based on this previous research, we posited that the CEO psychological factor would be a useful variable to use when investigating CEOs and firm outcome. We were particularly interested in goal orientation, as this was held to be relevant to organizational creativity.

Goal orientation is defined as the pattern of cognition and action that results from consistent pursuit of a particular achievement goal in an achievement
setting (DeShon & Gillespie, 2005). To develop competence, individuals with a learning goal orientation focus on the development of skills and ability, whereas those with a performance goal orientation focus on demonstrating ability and protecting themselves from negative judgments that could affect their self-worth (Dweck, 1986).

When evaluating the potential performance of an organization’s CEO, the goal orientation toward employees should be considered, instead of the goal orientation of the CEO himself/herself. To capture the orientation toward employees, Dragoni (2005) conceptually explained the emergence of the leader’s goal orientation in organizational work groups. That is, a leader who is oriented toward learning prioritizes employee development behavior. Dragoni et al. (2009) investigated the pattern of the leader’s orientation in management situations in more detail. Leaders who have a learning orientation encourage employees to learn new skills on the job; such leaders also seek to implement various management practices in promoting employee commitment to learning (Dragoni, 2005). For instance, they facilitate developmental activities and provide constructive feedback on new work. In their interactions with employees, they model the importance of learning from mistakes, encourage experimentation with new work approaches, and provide constructive feedback on how to improve (Cannon & Edmondson, 2001).

The positive effect of this developmental approach is supported by social learning theory, according to which, leaders affect employees by means of a social learning process through which employees repeatedly observe and interact with their leader and thus gain an understanding of meaningful behaviors (Bandura, 1986). Leaders with a higher development orientation can be expected to provide greater motivation to employees who are attempting creative activities. Leaders transmit and reinforce their favored achievement orientation by engaging in management behaviors that, in turn, send signals to organizational members about what is valued (Guzzo & Noonan, 1994). In order to acquire such knowledge and skills, individuals must engage in a learning process. This learning process (and the associated development of expertise) is promoted when there is a strong learning orientation (Dweck, 1986). Therefore, the development orientation of the leader may influence employee willingness to solicit and use feedback to improve their skills and creativity. Extending the relationship from leader to the CEO level, we propose the following hypothesis:

**Hypothesis 1:** CEO development orientation will be positively related to organizational creativity.

**The Contingency Perspective**

Human behavior researchers have long recognized the importance of examining both individual and organizational influences on attitudes and behavior. Widely-
accepted performance frameworks have been developed, such as those dealing with person-context interactions and person-organization fit (Kristof, 1996). It has been argued, however, that a limitation in recent organizational behavior research is the failure to attach adequate importance to the organizational context (Mowday & Sutton, 1993). Therefore, approaches that integrate personal and context factors have recently been proposed. Lumpkin and Dess (1996) stressed the importance of using a contingency perspective to determine which factors can affect the relationship between CEO orientation and firm performance. The contingency perspective suggests that leader effects on organizational outcomes occur only under some conditions, such as high environmental conditions. Specifically, crises constitute a weak situation that allows the leader to influence the organization.

Indeed, previous researchers have indicated that in strong situations leaders’ actions produce no difference in organizational performance (Waldman, Ramirez, House, & Puranam, 2001), because such situations can act as substitutes for leadership and negate leaders’ influence on the organization or its employees. Organizational constructs can replace the need for leader support or guidance, the so-called substitutes for leadership (Kerr & Jermier, 1978). Formalized goals, rules, and procedures, and cohesive work groups can also make leadership unnecessary. Industry environment accounts for common cultural attributes across different firms (Chatman & Jehn, 1994). Strong situations are those in which everyone construes a similar meaning of an event or in which uniform expectancies or responses are induced. In these studies, it is suggested that many contingencies may attenuate the relationship between CEO leadership and organizational performance. Factors such as the characteristics of jobs or organizational systems can act as substitutes for leadership and negate leaders’ influence on the organization or its employees.

In this study, we examined the effect of CEO orientation using the contingency perspective. We assumed that the organizational learning system would be a representative contingency, because a learning system fulfills a similar role to that played by a CEO in terms of development orientation when promoting organizational creativity. That is, a well-established organizational system can be a substitute factor reducing the CEO effect on organizational creativity. Using the concepts of situational strength and leader discretion, in this paper we propose that the organizational system can be considered as a moderator.

**Hypothesis 2:** The organizational learning system will moderate the positive association between the CEO development orientation and organizational creativity, such that the positive relationship will become weaker when the organizational learning system is strong.
Participants and Procedure

Of the 300 South Korean SMEs who participated in a large government-funded program (The 2008 Support Program for the Learning Organization for SMEs) to design life-long learning system for creativity and innovation, 65 participated in our survey. We chose SMEs because a CEO’s predispositions have been found to be more influential on the performance of SMEs as compared to the performance of large companies, because there are fewer hierarchies in these organizations (Simsek, Veiga, & Lubatkin, 2007). Also, SMEs mostly compete in industries that require a high level of creativity to maintain the organization’s competitive advantage. For instance, the majority of creative firms in Australia are SMEs, which employ an average of 20 people or fewer (Felton, Gibson, Flew, Graham, & Daniel, 2010). Therefore, SMEs would be an appropriate setting for examining the effect CEOs’ characteristics have on organizational creativity. To avoid common method biases, we collected data from multiple sources, including CEOs, HR managers, and randomly selected employees. CEOs were asked to complete a survey that included items assessing their personal characteristics, such as their own goal orientations and a development pattern orientation (that is, CEO pattern orientation towards employee development). Employees were asked to rate their own level of creativity as an employee of the organization. HR managers were asked to respond to organizational learning system items. Among the 65 companies sampled, data from 1 company were excluded as responses were either incomplete or fewer than four employees responded, ultimately leaving 64 SMEs (response rate: 98.5%). Of the CEO respondents, 98.44% were male, the average age was 53 years (ranging from 35 to 71 years), and the average organizational tenure was 15.33 years ($SD = 8.99$).

Measures

**CEO development orientation.** CEO development orientation was measured using seven items adopted from Dragoni’s (2005) achievement pattern orientation research regarding employee development ($\alpha = .89$). A sample item is “I use specific learning goals to motivate employees and measure progress”. CEOs responded on a 7-point scale, ranging from disagree absolutely (1) to agree absolutely (7).

**Organizational learning system.** Organizational learning system was measured using six items adopted from Kim, Gwon, and Jeong (2001) as well as Vian and Johansen (1983) ($\alpha = .71$). A sample item is “My organization has established a learning system that supports employees in order to fulfill their learning needs”. HR managers at each company responded on a 7-point scale, ranging from disagree absolutely (1) to agree absolutely (7).
Organizational creativity. Organizational creativity was assessed using five items revised from Janssen’s (2000) idea generation scale ($\alpha = .96$; aggregated level). A sample item is “My organization always creates new ideas for difficult issues”. Each employee responded on a 7-point scale ranging from disagree absolutely (1) to agree absolutely (7). In order to justify the aggregation of individual responses regarding organizational creativity at the organizational level, inter-rater agreement ($r_{wg}$; James, Demaree, & Wolf, 1984), intraclass correlation coefficients (ICCs), and internal consistency (reliability coefficient alpha at the aggregated level) were calculated. The median value of $r_{wg}$ was .92 and ICC (1) and ICC (2) were .33 and .78, respectively [$F(64, 410) = 4.66, p < .01$], providing sufficient evidence for the aggregation.

Control variables. We also added all three dimensions of goal orientation (learning orientation, proving performance orientation, and avoiding orientation) as controls in the analyses, as these have mostly been considered as predictors of creativity at individual or team level. These three dimensions were rated using VandeWalle and Cummings’ (1997) scale. A sample learning orientation item is “I often read materials related to my work to improve my ability”. A sample performance orientation item is “I would rather prove my ability on a task that I can do well at than to try a new task”. A sample avoiding orientation item is “I would avoid taking on a new task if there was a chance that I would appear rather incompetent to others”. Each CEO responded on a 7-point scale, ranging from disagree absolutely (1) to agree absolutely (7).

Results

Table 1 contains the means, standard deviations, reliabilities, and correlations among the research variables. As expected, CEO development orientation toward employees was significantly related to two dimensions of the CEO’s own goal orientations: goal learning orientation ($R^2 = .51, p < .01$) and performance goal orientation ($R^2 = .37, p < .01$).

Table 1. Means, Standard Deviations, and Correlations among Study Variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>$M$</th>
<th>$SD$</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. CEO learning orientation</td>
<td>6.04</td>
<td>.75</td>
<td>.86</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. CEO performance proving orientation</td>
<td>4.99</td>
<td>1.18</td>
<td>.23</td>
<td>.90</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. CEO avoidance orientation</td>
<td>2.49</td>
<td>1.16</td>
<td>-.13</td>
<td>.17</td>
<td>.84</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. CEO development orientation</td>
<td>6.01</td>
<td>.61</td>
<td>.51</td>
<td>.37</td>
<td>-.19</td>
<td>.89</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Organizational learning system</td>
<td>5.20</td>
<td>.82</td>
<td>-.31</td>
<td>.09</td>
<td>-.05</td>
<td>-.11</td>
<td>.71</td>
<td></td>
</tr>
<tr>
<td>6. Organizational creativity</td>
<td>4.79</td>
<td>.82</td>
<td>.07</td>
<td>.21</td>
<td>-.02</td>
<td>.35</td>
<td>.20</td>
<td>.95</td>
</tr>
</tbody>
</table>

Notes: $N = 64$ (listwise deletion). Numbers in parentheses indicate coefficient alphas. For $|r| \geq .31$, $p < .05$, for $|r| \geq .35$, $p < .01$. 

We conducted a series of hierarchical regression analyses in order to examine our hypotheses. In order to reduce the potential problems of multicollinearity (Cohen, Cohen, West, & Aiken, 2003), both independent variables and product term were standardized before the analyses were performed.

Table 2 contains the results of our analyses. In the regression equation, the control variables were entered first. As predicted, CEO development orientation was positively related to organizational creativity ($\beta = .40, p < .01$), providing empirical support for Hypothesis 1 (see the second step in Table 2). Furthermore, the moderating effect of organizational learning system on the relationship between CEO development orientation and organizational creativity was also significant (see the third step in Table 2). Regression results revealed a weak but significant interaction effect ($\beta = -.20, p < .10$). To illustrate the nature of this interaction, we drew a graph (see Figure 1) by following the procedure specified by Cohen et al. (2003). As can be seen in Figure 1, the organizational learning system becomes very crucial in promoting organizational creativity when a CEO is at a low level in terms of development orientation, whereas the impact of the organizational learning system is minimal when the development orientation of the CEO is high.

<table>
<thead>
<tr>
<th>Predictors</th>
<th>Dependent variable: Organizational creativity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Step 1: Control variables</strong></td>
<td></td>
</tr>
<tr>
<td>CEO learning goal orientation</td>
<td>.01</td>
</tr>
<tr>
<td>CEO performance proving goal orientation</td>
<td>.22</td>
</tr>
<tr>
<td>CEO avoidance goal orientation</td>
<td>-.06</td>
</tr>
<tr>
<td>$F$</td>
<td>1.01</td>
</tr>
<tr>
<td>$R^2$</td>
<td>.05</td>
</tr>
<tr>
<td><strong>Step 2: Main variables</strong></td>
<td></td>
</tr>
<tr>
<td>CEO development orientation (CDO)</td>
<td>.40**</td>
</tr>
<tr>
<td>Organizational learning system</td>
<td>.22†</td>
</tr>
<tr>
<td>$F$</td>
<td>2.72*</td>
</tr>
<tr>
<td>$R^2$</td>
<td>.19</td>
</tr>
<tr>
<td><strong>Step 3: Two-way interaction terms</strong></td>
<td></td>
</tr>
<tr>
<td>CDO x Organizational learning system</td>
<td>-.20†</td>
</tr>
<tr>
<td>$F$</td>
<td>2.85*</td>
</tr>
<tr>
<td>$R^2$</td>
<td>.23</td>
</tr>
</tbody>
</table>

*Notes: † $p < .10$, * $p < .05$, ** $p < .001$.

Due to the small sample size, post hoc power analysis was conducted to determine whether the sample size of 64 provided sufficient power to detect the observed effect in the regression analyses. Using R software, we found that the present sample size had sufficient power (.90) to detect a moderate to large
effect size \( f^2 = .30; \) Cohen, 1992), with an alpha level set at .05. Based on this finding, we can conclude that both the CEO’s development orientation and the organizational learning system were significantly related to organizational creativity.

![Graph showing the interaction between CEO development orientation and organizational learning system on organizational creativity.](image)

**Figure 1.** CEO development orientation and organizational learning system interaction for organizational creativity.

**Discussion**

Our results showed that the CEO’s development orientation, a psychological characteristic, did influence organizational creativity. Based on this result, we determined that it is important to consider proximal factors such as development orientation in order to gain a better understanding of the effect the CEO’s characteristics have on organizational outcomes.

Furthermore, we also uncovered a moderating effect of the organizational learning system. Specifically, we found that the organizational learning system moderated the positive relationship between the CEO’s development orientation and organizational creativity. Despite the weak level of significance of the moderating effect, the pattern of the interaction supported the contingency perspective. Corresponding to our prediction, the CEO’s development orientation was less influential in promoting organizational creativity, as the organizational learning system became more dominant. The CEO’s development orientation mattered most when the organizational system was weak. We found this result interesting because it shows that the role of the CEO became more significant in increasing organizational creativity, especially when the organizational system is not well-established.
Implications and Limitations

This study is an extension of previous research in several respects. First, we examined how a CEO’s personal characteristics influence organizational outcomes. Compared to previous studies in which the effect of CEO demographic proxies was examined, our results provide empirical support for the idea that considering psychological traits is critical for gaining a complete understanding of the effect the CEO has on organizational outcomes. Thus, for practitioners in SMEs (who need to understand the effect CEOs have on organizational outcomes), our study represents a valuable and detailed guideline that reaches beyond a simple consideration of demographic proxies.

Second, few researchers have directly focused on CEO level traits, despite the importance of these traits (Simsek, Veiga, & Lubatkin, 2007). Based on upper echelon perspective and goal orientation study at the CEO level, we aimed to extend the existing literature from individual level to the organizational level by testing the relationship between the CEO’s orientation and organizational result.

Third, we also revealed the important role of the organizational system. The CEO’s development orientation becomes more salient as regards organizational creativity when the organizational system is not well-established. However, an organizational system is substitutable to some degree when the CEO’s development orientation is low. Thus, the findings in this study provide practitioners with valuable insights concerning when the role of the CEO and/or the role of organizational system play more of a role in increasing organizational creativity. That is, the CEO’s development orientation should be given greater emphasis in organizations where the organizational learning system is not fully established, whereas in organizations with CEOs who have a low level of development orientation, the focus should be on establishing a proper organizational learning system.

Last, we not only measured the psychological variables using a survey, rather than using archival data, but we also collected data from multiple sources (i.e., supervisors, HR managers, and employees) to minimize the possibility of common method bias.

Although we have made clear contributions by conducting this study, it does have limitations. First, we only considered one organizational system factor (organizational learning system). There are many other organizational factors that may influence the effect of a CEO on organizational outcomes. Therefore, further studies are needed to examine other possible drivers at the organizational level. Second, not all employees responded to the survey, raising the issue of the aggregation of organizational creativity. To overcome this limitation, it would be valuable to consider both an objective measure and the current survey measure of organizational creativity in future research.


