

The Effectiveness of Functioning as a Robust Systems and Using Relational Leadership to Enhance Disruptive Innovation in Small and Medium Enterprises (SMEs)

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Abstract

This paper investigates the role that Relational Leadership and Robust Systems theory play in the enhancement of Disruptive Innovation in Small and Medium Enterprises (SMEs). It clarifies the importance of Disruptive Innovation in SMEs in today's global market, and the effectiveness of Disruptive Innovation in helping SMEs to compete and grow in tough markets. Building upon previous research, this paper discusses the importance of trust and transparency between leaders and followers in increasing innovation skills. We propose that the use of Relational Leadership Style can improve Disruptive Innovation performance in SMEs. One of the theories of Relational Leadership is Leader-Member Exchange Theory (LMX). We argue that LMX is an effective tool in deepening trust between leaders and members, which can lead to the enhancement of creativity and innovation skills. We also mention the role of organizational climate in innovation process. We think that Robust System theory can help to promote freedom, understanding and safety. These elements can assist SMEs in maximizing their innovation capabilities. Finally, the study discusses the innovation barriers in SMEs, and the effective role LMX and Robust Systems theory play in helping SMEs to overcome the barriers.

Key words : Disruptive Innovation, Robust Systems, Relational Leadership, Small and Medium Enterprises (SMEs), Work place behavior, Creativity, Team Dynamics, Leader-Member Exchange Theory (LMX), Organizational Development.

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1. Background/ Objectives and Goals

In today's global market that is characterized by continues change and instability, Small and Medium Enterprises (SMEs) need more than just incremental innovations.¹ We live in an era where SMEs face great challenges and fierce competition that may lead them to exit the market at any time. Disruptive Innovation is required to avoid bankruptcy and to give SMEs the ability to grow. It is important for SMEs to disruptively innovate their products, processes, procedures and services. Relying on incremental innovation or continues improvements known as (Kaizen) is not enough. This is because the market is changing all the time with many competitors and many products and services that enter the market in a continues manner, which creates tough competition.² In order to face the hardships of today's demanding market, SMEs need to let go of their old ways of thinking and their old methods of leading followers and replace them with new ideas. Strong Relational Leadership that nurture employees' creative abilities and encourage them to grow is also needed. In addition to that, SMEs need to provide Robust Systems, which characterized with safety and nurturement that are necessary for innovation activities.

As mentioned above, SMEs need Relational Leadership and Robust Systems in

¹ Some researchers argue that the reason behind the rapid change in economy is due to the fourth industrial revolution. The first industrial revolution happened in the 18th century and was caused by mechanical production. The second revolution that was accelerated by the introduction of the conveyor belt and mass production occurred in the beginning of the 20th century. The third revolution known as the digital automation took place after that. Now we live in the fourth industrial revolution governed by technology and the internet of things (Bloem et al., 2014: 11).

² Dr. Park argues that the incremental innovation that once helped Japanese economy to be a superpower is not efficient anymore. He claims that fear of failure and the risk aversion environment that many Japanese companies are adopting is not helping them to successfully implement radical innovation. He suggests that Japanese companies need to review their old management approaches, and encourage new approaches that can assist them to produce radical innovation (Park, M. 2013: 179).

order to be able to engage in Disruptive Innovation endeavors.³ SMEs need strong Relational Leadership that focuses on relationships and where nurturing and listening to employees is considered a priority.⁴ Innovation is a complex phenomenon and it can be characterized with uncertainty, fragility, political and imperialism (extending to other areas and territories). Therefore, for innovation to flourish the leadership must be fixable, react quickly, provide thorough and intensive care, make coalition formation and connectivity (Kanter, R. 1988: 95). The traditional way of leading in which employees just receive orders to follow them without actively participating in the decision making process, is insufficient in inducing creative abilities of employees. The creative abilities of employees is required for SMEs to engage in Disruptive Innovation activities. For example, many firms are using what I call a “Top-to-Bottom Hierarchy system Leadership”. In such systems, orders come from top management in order to be executed by employees. The problem with this system is that leaders at the top of the hierarchy do not listen and interact with those at the bottom of the hierarchy. In addition, it does not provide a safe environment for employees to share their thoughts and ideas, and the reason why is because in such systems employees feel as if their thoughts and ideas are not important. These problems can be a serious hurdle that will prevent them from engaging in any innovative activities. I think that leaders should focus on their relationships with their employees and listen to them. This is because strong, creative and innovative employees will lead to a strong, creative and innovative firm. It is a simple concept that I believe leaders in SMEs need to know. If you have motivated and innovative employees, it means that, you will have a healthy, strong and innovative firm. Encouragement and empowerment of employees are the responsibility of leaders and they are necessary for any innovative endeavor including Disruptive

³ The term Disruptive Innovation was coined by Harvard Business School professor Clayton Christensen in the early 1990s. He examined the disk-drive industry and found that leading companies failed to remain dominant in their markets. He discovered that when innovation supports what historically customers valued, incumbent businesses lead the market. However, when new innovation emerges and provides new trajectories different from the old ones, entrant firms lead the market and incumbent businesses fail. This shows us the importance of Disruptive Innovation to help firms to be successful. If ignored, firms may lose their market share and fail (Christensen et al., 2018: 1047).

⁴ Empathic listening is an effective tool for leaders to increase employee’s performance. In addition, empathic listening has shown to improve LMX quality and lead to more creativity and job satisfaction (Lloyd, K. et al., 2017: 1).

Innovation. In addition to strong Relational Leadership style, SMEs need to create a safe, encouraging, nurturing and productive environment where people can develop and thrive. It is to create what Oshry describes as a Robust System, a high energy system where members are using themselves fully, and the system as a whole is using itself fully, surviving and thriving in its environment, coping with dangers and prospecting among opportunities (Oshry, B. 2007: 1).⁵ Such an environment is necessary for leaders and employees in order for them to produce Disruptive Innovation.

This study investigates the important role that Relational Leadership plays in inducing Disruptive Innovation in SMEs. It shows the vital role that Relational Leadership plays in stimulating creative abilities of employees that are of high importance for Disruptive Innovation. In addition, this study explores the rationale behind the necessity for SMEs to function as Robust Systems to allow for more freedom and encouragement that are required for Disruptive Innovation. Relational Leadership style and Robust Systems approaches can help SMEs in their Disruptive Innovation endeavors. In today's global market that is filled with challenges and instability, Disruptive Innovation is needed. In this study, the following questions will be asked: what is Disruptive Innovation, and why is it important for SMEs in today's global market? How is Relational Leadership different from other styles of leadership, and what makes it effective in enhancing Disruptive Innovation? Why is it important for SMEs to operate as Robust Systems, and how can that improve Disruptive Innovation for SMEs? What are the innovation barriers for SMEs? And how can Relational Leadership and Robust System theory help to overcome innovation barriers?

⁵ Through his work in social systems Barry Oshry introduced Robust Systems Model which depicts the social process that occurs in organizations. According to Oshry social interaction in organizations occurs by Tops, Middles, Bottoms and Customers. Each of these level has its own characteristics and challenges. He argues that when we are blind about other dimensions and are not able to see the uniqueness and challenges in each level, improvement becomes very difficult. When firms function as Robust Systems, employees will be able to use themselves fully and achieve the desired outcomes (Oshry, B. 2007: 2).

2. Disruptive Innovation in ambiguous and unstable markets

Innovation plays a pivotal role in the long-term survival for organizations of all sizes. Some research studies found that without innovation, organizations could not survive in the long run. In other words, all organizations regardless of their size need innovation in order to survive and thrive. This is because of the fierce competition that organizations face nationally and internationally. In addition to that, the rapid changes in regulations and market conditions can lead to the emergence of new and unusual challenges that require creative and innovative solutions (Ancona, D., and Caldwell, D. 1987: 1; Amabile, 1988: 124). The terms creativity and innovation are usually used interchangeably in the literature (Scott, S., and Bruce, R. 1994: 581). Creativity is the base foundation of innovation and without creativity, innovation is impossible. That is because creativity is the act of producing novel and useful ideas (Sternberg, 1999: 3; Mumford, D., and Gustafson, B. 1988: 28). Innovation is the application of these ideas that has been developed during the creative process (Van de Ven, A. 1986: 5; Kanter, M. 1988: 94; Amabile, 1988: 126). In this paper, innovation will be defined as the process of coming up with ideas to radically and disruptively inventing new products or services that serve the needs of customers. In this study, innovation will be divided into two main types. The first type is incremental innovation, which focuses on small improvements for the current products, process and technologies. The second type of innovation is Disruptive Innovation that focuses on big changes and aims for creating a new customer base. Disruptive Innovation is considered a guiding star by many small and medium enterprises managers. Disruptive Innovation happens when smaller firms with limited resources that are not considered the main players in the market, succeed in challenging incumbent businesses with higher performance and larger market share. The phenomena happens when incumbent businesses focus on incremental and sustaining innovation for their mainstream customers that are consider their most demanding and in most cases their most profitable customers. On the other hand, new entrants to the market focus on disruptively innovate new technologies, products and services that serve the overlooked customers by incumbent businesses. These disruptively invented technologies are usually cheaper and more convenient than other products. Established firms that control the market usually do not pay attention to those new comers and continue

to please their main stream customers by focusing on incremental innovation and continues improvement. Using the power of their disruptively innovative technologies, the new entrants continue to go upmarket until they deliver the performance that the mainstream customers require. The disruption in the market happens when the mainstream customers start to use the disruptively innovative technologies, products or services of the new entrants instead of the traditional products of incumbent businesses (Christensen et al., 2013: 3). A prominent example of Disruptive Innovation is the rise of Airbnb and the disruption it has made in the tourism industry. The disruption was so strong that the sector has been affected and many incumbent strong businesses have lost the battle against Airbnb and could not face the power of its Disruptive Innovation methods. This proved that Disruptive Innovation theory is effective and it has the power to change markets forever. Disruptive Innovation that targets products and services that are not favored by the mainstream customers but offer alternative benefits can over time change the market (Guttentag, D. 2015: 1193). Most SMEs use incremental innovation as the main method of innovation in their corporate strategy. The problem with this kind of innovation is that it does not provide radical changes to the products and services that SMEs are making for the market. This gives the opportunity for other firms to disrupt the market with new and radical technologies and turn the table on their competitors. Disruptive Innovation requires more than just a sustaining and simple improvements known as (Kaizen) that most SMEs do these days. Failing to do so might allow new entrants into the market to disruptively invent new technologies that will threaten the existence of many SMEs and make them in danger of losing their market share or even worse make them face the danger of bankruptcy.

3. Relational Leadership as a mechanism to generate Disruptive Innovation

The relationship between leadership and innovation is a strong one. Some researchers propose that leadership is one of the most powerful elements in innovation. There are certain characteristics in leaders that make them more likely to encourage innovative behavior. First, the competence and the technical skills that leaders have is an important predictor of leaders who might be more prone to support innovation. Second, the ability to critically evaluate situations and give constructive criticism. Third, motivating other

employees to improve and develop their skills. Finally, the autonomy given to members to execute innovation processes (Mumford, M. et al, 2002: 707–710). Relationships play a very important role in successful leadership. Some contemporary definitions of leadership consider the relationship between leaders and members as a basic and inseparable component of leadership (Ciulla, J. B. 2020: 513). Relational leadership can be divided into two main groups. First, the entity perspective that considers the characteristics of individuals as they engage in relationships. Second, a relational perspective, which describes leadership as a social process that members of society create together and deals with this phenomenon as a one entity (Uhl-Bien, M. 2011: 654). One of the most famous leadership theories that focuses on relationships is Leaders Member Exchange (LMX).⁶ LMX is an effective approach to analyze the effect of the relationship between leaders and members in organizations (Yu, A., et al., 2018: 24).⁷ It is considered, by many researchers to be the most important dyadic theory in leadership. While other leadership theories such as transformational and servant leadership are concern with the effect of the leaders' behavior on their followers, LMX places the attention on the dyadic relationship and the dynamic between leaders and followers as the most important

⁶ Leader-Member Exchange theory started as Vertical Dyad Theory (VDT) in 1975 by Fred Dansereau, George Graen and William J. Haga. Before that, the research on leadership focused on two main assumptions. The first assumption was that the people who always report to their supervisors have similar perceptions, views and react similarly to the different situations. The second assumption was that leaders behave the same way with all the followers and without exception. According to the VDT creators, these assumptions have caused the research on leadership to be slow in moving forward. They proposed that studying leadership from the perspective of the vertical dyadic principle would allow us to not be limited by the two assumptions mentioned above. The main concept of the theory is that the relationship between a leader and a follower contained in a dyad. (Dansereau Jr, 1975: 47).

⁷ Some research has mentioned that due to the scarcity of resources that leaders have, they make a few high-quality relationships with their employees. This cannot be looked at as a negative thing, as it is just a phenomenon that LMX produce naturally (Yu, A., et al., 2018: 1).

thing.⁸ Since it is impossible to have a close relationship with all the employees in the organization, leaders who follow the LMX approach form a close relationship with employees who usually are close to them and report to them frequently. They form a high quality relationship that is based on mutual respect, appreciation and trust. The social exchange theory can provide a good explanation for the LMX theory. The theory dictates that when one does a favor for someone the other party will usually return the favor. When leader and member do that their relationship move from economic exchange to a social exchange relationship. They keep doing favors for each other and helping each other until the relationship reach a level where leader and member are no longer constrained by the job description, and their relationship becomes so strong that they always try to protect each others' interests (Erdogan, B., and Bauer, T. N. 2014: 1-2). The attributes of Relational Leadership can help to generate Disruptive Innovation results in SMEs. These traits include mutual respect between leaders and followers, trust, meaningful communication and listening to employees (Brower. et al. 2000: 227). By definition, Disruptive Innovation involves risk and uncertainty and, engaging in Disruptive Innovation activities, means that organization need to invest a lot of money, time and effort on something that has not proven to be successful yet. In addition to that, it means that organizations need to target customers that are not considered from the main stream (Christensen, 1997: 77). If SMEs use "Top-to-Bottom Hierarchy system Leadership" style that is based on giving orders to employees, it would be very difficult for them to advance and grow. I argue that Relational Leadership can help to enhance Disruptive Innovation and it can help to overcome the challenges that Disruptive Innovation presents. There are several reasons that make Relational Leadership effective in enhancing Disruptive Innovation in SMEs. First, Relational

⁸ Graen, G. B., and Uhl-Bien, M. (1995), created a framework for LMX theory to elucidate the ramifications of its concept on organizations. In their research, they clarify that the domains of leadership are leader, follower and relationship. In addition to that, they created four stages that LMX theory has gone through since its early years. Stage one, is concerned with Validation of Differentiation within work units where the level of analysis was dyads with work units. Stage two, which is basically the validation of differentiated relationship for organizational outcomes and the level of analysis is dyad. Stage three, Leadership-Making where the focus is on theory and exploration of dyadic relationship development. Stage four, Team-making and competence network, and the level of analysis is collectivities as aggregations of dyads (Graen, G. B., and Uhl-Bien, M. 1995: 219-247).

Leadership values trust and meaningful communication and high quality relationships. This can help employees to feel safe and secure to pursue Disruptive Innovation. As mentioned above, Disruptive Innovation involves ambiguity and uncertainty and this requires leaders to be more sensitive to their employees and to provide the trust and encouragement for them to stay strong and continue to produce more innovative ideas. The traditional way of leadership that relies on hierarchical based system is not effective. In such systems, employees job is to follow orders, and leaders do not value the opinions of their employees and that makes it very difficult for them to feel empowered and safe. Second, a clear and ambitious vision is essential for leadership (Kantabutra, S. 2006: 39). However, using traditional way of leadership, which consists of giving orders for employees without listening to them, will not help to realize the vision. Relational Leadership can help here because it provides the encouragement that employees need, especially with visions and tasks that involve risk and vagueness where employees need a guidance and need leaders who are willing to listen to them and value their opinions. Leaders who do that can help employees to develop and to discover their strength points and use them to achieve the desired goals. Leaders are not only responsible for creating visions; they are also responsible for helping employees and guide them through their journey to achieve the organizations goals. In a “Top-to-Bottom Hierarchy system Leadership” organizations, leaders rarely listen to their employees. They lack meaningful communication that is required for successful organizations. Fear and ambiguity can be a tough challenge for employees, and it may not help them to realize the vision of the organization. Third, Disruptive Innovation, requires adopting new ways of thinking. In addition to that, it requires the ability to think outside the box and anticipate new directions and trajectories that are different from the old ones. People usually find it hard to let go of old ways of thinking and find it difficult to abandon old traditions and customs (Park, 2016: 653). However, failure to change can lead to bad results and it can lead the company to lose its market share. Relational Leadership can be very useful in this situation, because of its ability to provide closeness and strong relationships that can assist followers in their transitions from old ways of thinking to a new and different perspectives. Relational Leadership provides the safety and security for employees and that help them to share their fears and concerns towards the new perspectives. Relational leaders take into consideration the difficulties that followers go

through when transitioning from old to a new frame of mind. They show that through deep and meaningful communication that is based on trust and honesty.

4. Robust Systems is a prerequisite for producing Disruptive Innovation

The purpose of applying Robust Systems is to convert system blindness into system sight. Blindness inside the system creates a lot of stress, lack of understanding and non-transparency. All these factors can cripple any innovation activity and limit the ability of SMEs to be innovative. The fundamental goal of any organization whether it is Toyota or a small enterprise in a small town is to survive and thrive, and this is exactly what organizations get when they function as Robust Systems. It allows organizations to move from blindness of the system into system sight where employees use themselves fully. This is why SMEs need to function as Robust Systems to produce Disruptive Innovation. They need a system or an environment that is free from bad arguments, unhealthy relationships and dictatorial leaders who do not listen to their employees. The author of Robust Systems theory Barry Oshry thinks that organizations are patterns of relationships rather than a collection of individuals. He suggests that any organization is divided into Top, Middle, Bottom and Customers. The Top is characterized by complexity and accountability. Middle is characterized by the feeling of being torn between the Top and Bottom. The bottom is characterized by feeling invisible and vulnerable. Many problems can happen when we do not understand what other people in different levels are going through. It is called Blindness of the System and it can lead employees to live in an environment that is full of frustration and conflict. Such an environment makes it very difficult for SMEs to engage in Disruptive Innovation activities. On the other hand, when firms operate as Robust Systems they move from (System Blindness) into (System Sight) and that enables them to have healthy relationships, safe environment and increase organizational learning, which is necessary for innovation (Wang et al, 2015: 72). I think that if SMEs function as Robust Systems, their ability of Disruptive Innovation can be enhanced. This is because organizations that function as Robust Systems have the ability to provide a safe haven for their employees to be more courageous and more productive at work. In addition, it helps to improve relationships and organizational learning that are necessary for Disruptive

Innovation. SMEs need to provide an environment where employees can feel safe to show their creative abilities. Providing such an environment is vital for any creative or innovation activity (Garcês, S., et al., 2016: 170). In conclusion, Robust Systems can help SMEs to enhance their innovation performance and creates an innovative climate. In addition to that, it can lead to more employee and consumer satisfaction and enhance the perception of service effectiveness by customers (Aarons, G. A., and Sommerfeld, D. H. 2012: 3). Innovative climate can be achieved when employees perceive that the leadership is supporting innovative endeavor and belief in their ability to be creative (Jaiswal, N. K., and Dhar, R. L. 2015: 31-38).

5. Innovation Barriers in SMEs

We discussed the importance of innovation in maximizing profitability and performance for SMEs. However, innovation is a delicate process that often involves many changes that organizations need to deal with before reaping the benefits of innovation. In this section, we will discuss the barriers of innovation for SMEs and the importance of using relational leadership and robust systems to overcome the barriers. When searching the literature we find that most of the research that investigates innovation barriers focuses on two main barriers. The first barrier concerns the lack of money, and the challenges SMEs face because of the lack of the necessary financial resources. The second barrier is concerning the factors that affect the importance of innovation for managers (D'Este, et al., 2012: 483). However, factors like leadership and organizational environment are vital elements for innovation. For example, the relationship between leadership and innovation is a strong one. Some researchers propose that leadership is one of the most powerful elements in innovation (Mumford, M. et al., 2002: 707). Organizational climate also plays an important role in the enhancement of innovation performance. For instance, some researchers find that climate can help organizations to improve the implementation of creative ideas. In addition to that, it can lead to more employee and consumer satisfaction and enhance the perception of service effectiveness by customers (Aarons, G. A., and Sommerfeld, D. H. 2012: 2). It is important to know that, even if organizations have the necessary financial resources, without proper leadership and supportive climate, innovation can be very difficult to

realize. To fill the gap in the literature, in this research we will focus on leadership styles and organizational environments that enhance and/or prohibit innovation.

A lack of trust and cooperation is considered one of the innovation barriers in SMEs (Talegeta, S. 2014: 100). When leadership focuses on profits and ignores the well-being of employees, the innovation performance deteriorates. We mentioned earlier that the top-to-bottom leadership style that focuses only on profits and ignores making authentic relationships with employees, is not effective in producing innovative results. Leaders, who apply the top-to-bottom leadership style, rarely give importance to the ideas and suggestions of their employees. Their relationship with their employees is not strong and lacks trust. This leadership style creates a lot of damage to the innovation ability of SMEs, and to the personal relationship between leaders and members. To overcome this problem I propose that the use of LMX leadership style can help to overcome this challenge and enhance the innovation performance in SMEs. To explain how the LMX influences innovative behavior, we need first to understand the dynamics of the interaction between leaders and members. At first, the relationship might be formal and the two parties engage in a relationship process or role development process to decide over time how much autonomy, decision latitude and influence members can have. Over time, some leaders and members will move beyond simple economic exchange to a higher relationship that is based on social exchange. In high quality LMX leaders and members develop mutual trust, liking and have meaningful communication (Scott, S. G., and Bruce, R. A. 1994: 584). If there is trust between leaders and members, the innovation performance will improve. Members will feel more confident in speaking their minds and suggest creative ideas. They will have more courage to challenge the status quo and present different methods and strategies that are different from the old methods. LMX can be a powerful tool that leaders can use to boost the confidence of their employees. Unlike the top-to-bottom leadership style that places little importance on relationships with employees, LMX leadership style promotes trust between leaders and members. In addition to that, it places a great importance on the wellbeing of employees, which leads to the enhancement of innovation skills and job satisfaction.

One of the innovation barriers that SMEs face is the organizational environments that

do not support innovation. These kinds of environments usually prefer to stick to the normal way of doing things and refuse to change (Cordeiro, A., and Vieira, F. D. 2012: 3). We mentioned above that innovation comes after creativity has been established. Creativity is simply the new ideas that can add value to an organization or society. When the environment is not safe and not supportive of employees, it can be hard to produce innovative work. When employees are not given the opportunity by their leaders to speak their mind, and share their ideas and suggestions freely, creativity and innovation can be difficult to achieve. In order for organizations to be innovative, leaders need to provide safe and supportive environments. Organizations need a flexible and caring environment if they want to engage in innovation activities (Kanter, R. 1988: 95). This is where the importance of Robust Systems comes. When SMEs operate as Robust Systems, the culture of the organization changes for the better. The environment of the organization changes from a suppressive environment, to a safe and encouraging environment. As we mentioned above, operating as Robust Systems allows organizations to move from blindness of the system into system sight where employees use themselves fully. This means that employees will feel safe to share their ideas and this will lead to the enhancement of creativity and innovation. Sharing ideas freely is important for producing creative ideas, because creative ideas are the raw material for innovation. Some researchers have found that organizational climates that support emotional safety and dynamism and risk-taking propensity can be effective in developing innovation performance (Thiruvankadam, T., and Kumar, K. S. 2018: 165). We mentioned that the purpose of applying Robust Systems theory's methods in SMEs is to convert system-blindness into system-sight. In other words, Robust Systems methods encourage creativity and innovation through building a transparent and honest environment where everyone in the organization feels understood, valued and appreciated. Robust Systems theory urges all members to understand and empathize with each other. People at the top hierarchy of the organization should understand the challenges that their fellow members at the bottom of the hierarchy face. On the other hand, people at the middle and bottom of the hierarchy should also understand the pressure and the problems their leaders face. This understanding of each other's worlds and points of views can help to promote honest, transparent and safe climate in SMEs. Innovation results can be achieved when the climate is encouraging and supportive. We mentioned above

that if organizational climates do not promote transparency and safety, it can be very difficult for SMEs to engage in innovation activities. Robust Systems theory promote organizational innovation capabilities by using understanding and honesty between members as its main tool.

6. Conclusion

In this study, we discussed the importance of innovation in SMEs. We mentioned the need for implementing Disruptive Innovation and the danger of applying only incremental innovation. We also mentioned the vital part of leadership in facilitating innovation in SMEs. Relational Leadership styles focus on the human resources of organizations and this can lead to the enhancement of creative and innovative performance of SMEs. In this study, we chose LMX leadership theory, because it is the most famous and well-studied relational leadership theory. We clarified how LMX improves Disruptive Innovation performance in SMEs and the dynamics between LMX and Disruptive Innovation. Another theory that we discussed in this study is Robust Systems Theory. Organizational climate affects innovation performance in SMEs. Robust Systems Theory can be an effective tool for enhancing innovation in SMEs. Finally, most studies on innovation barriers focus on financial issues and leader's perspective of innovation. This study sheds light on the importance of leadership and organizational climate and the role they play in enhancing or hindering innovation.

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