Why Organizational Culture Matters? Transformational Leadership, Organizational Learning Culture, and Organizational Innovative Culture Linkage

Hafilan Zainul Umam, Tri Siwi Agustina

University of Airlangga, Surabaya, Indonesia

ABSTRACT

In today's fast-moving and competitive business world, companies need to keep innovating to stay ahead. Studying organizational innovative culture is essential for understanding how businesses can systematically cultivate an environment that supports innovation, enhances performance, and ensures long-term sustainability. A strong culture of innovation within an organization is essential for encouraging creativity, adaptability, and groundbreaking ideas. By studying this culture, organizations can learn how to create an environment that promotes ongoing improvement and adds real value.

This research becomes even more important when we look at what influences this culture of innovation. Transformational leadership is a key factor, as it inspires employees, builds a shared vision, and encourages them to take risks. However, the connection between transformational leadership and an innovative culture isn't always straightforward. Here, an organizational learning culture acts as a bridge, helping to connect leadership with a company's ability to innovate. By understanding how this connection works, organizations can develop specific strategies to boost their innovative potential.

Keywords: Organizational Learning Culture, Organizational Innovative Culture, and Transformational Leadership

INTRODUCTION

Enterprises play a vital role in shaping our political, cultural, economic, personal, and social environments. Researchers suggest that, like living organisms, established enterprises are 'born' and eventually 'die (Belak, 2011). Organizations must continuously innovate to maintain their relevance and competitive advantage. Organizational innovative culture plays a crucial role in fostering creativity, knowledge-sharing, and a proactive approach to problem-solving, which are essential for sustainable success (Martins & Terblanche, 2003).

Organizations with a strong innovative culture are better positioned to respond to industry changes, technological advancements, and competitive pressures. Such cultures encourage risk-taking, experimentation, and continuous improvement, leading to the development of new products, services, and business models (Naranjo-Valencia, Jiménez-Jiménez. Firms like Apple, Google, and Tesla have successfully leveraged their innovative cultures to maintain leadership in their respective industries. Research suggests that fostering an innovation-friendly culture is a key determinant of long-term success and market differentiation (Tushman & O'Reilly, 1997).

Innovation thrives in organizations that prioritize knowledge-sharing and continuous learning (Nonaka & Takeuchi, 1995). A strong innovative culture promotes open communication, cross-functional collaboration, and the integration of diverse perspectives, all of which contribute to the creation of novel solutions (Carmeli, Gelbard, & Reiter-Palmon, 2013). Research highlights that firms with strong learning cultures are more likely to sustain innovation over time and remain resilient in times of disruption (Garcia-Morales, Lloréns-Montes, & Verdú-Jover, 2008).

One of the key drivers of organizational innovation is leadership, particularly transformational leadership, which fosters an environment that encourages creativity, learning, and adaptability (Bass, 1990). Transformational leaders inspire employees by articulating a compelling vision, fostering intellectual stimulation, and providing individualized consideration, all of which contribute to shaping an organizational innovative culture (García-Morales et al., 2008). However, the mechanism through which transformational leadership influences organizational innovation requires further exploration. One potential mediating factor is organizational learning culture, which facilitates knowledge-sharing, continuous learning, and adaptability, ultimately enhancing the organization's innovative capabilities (Senge, 1990).

Despite the extensive research on transformational leadership and innovation, the mediating role of organizational learning culture remains underexplored. Many studies have focused on direct relationships between leadership and innovation (e.g., Gumusluoglu & Ilsev, 2009), but fewer have examined how learning culture facilitates this process (López et al., 2005). Beside, Nana & Otoo (2024) found that organizational learning culture did not mediate the relationship between employee competencies and career development. Understanding this mediating effect provides deeper insights into how organizations can strategically leverage leadership and learning to enhance innovation.

LITERATURE REVIEW

Transformational Leadership and Organizational Innovative Culture

Transformational leadership has been widely recognized as a critical factor in shaping an innovative culture within organizations. Leaders who adopt a transformational style encourage employees to think creatively, challenge the status quo, and engage in problem-solving that leads to innovative solutions (Jung, Chow, & Wu, 2003). Such leaders inspire employees by setting high expectations, promoting a shared vision, and fostering an environment that values experimentation and risk-taking (Zuraik & Kelly, 2019). Research has shown that transformational leadership enhances innovation by building a culture that supports collaboration, open communication, and empowerment (Gumusluoglu & Ilsev, 2009).

Bass (1990) found that organizations led by transformational leaders exhibit higher levels of innovation, adaptability, and performance. These findings suggest that transformational leadership's impact on innovation and performance is amplified when embedded within a supportive learning environment. Rashwan & Ghaly (2022) found that transformational leadership has positive effect of innovation behavior. Additionally, studies indicate that a strong learning culture mediates the relationship between transformational leadership and organizational effectiveness (Bass, 1990).

Transformational Leadership and Organizational Learning Culture

Transformational leadership is characterized by four core components: idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration (Bass, 1990). Leaders who exhibit idealized influence serve as role models, demonstrating ethical behavior and a commitment to organizational goals. Inspirational motivation involves articulating a compelling vision that motivates employees to work toward collective success. Intellectual stimulation encourages employees to challenge existing norms, think critically, and seek innovative solutions. Individualized consideration focuses on recognizing employees' unique needs and fostering their personal and professional growth (Joo *et al.*, 2012).

One of the most significant contributions of transformational leadership to organizational learning culture is the encouragement of creativity and innovation. By creating an environment where employees feel empowered to take risks and explore new ideas, transformational leaders facilitate the development of a learning-oriented culture. Amabile et al. (1996) emphasize that supportive leadership is crucial in establishing a work environment conducive to creativity and knowledge creation. The relationship between the alignment of perceived and projected organizational culture and emotional factors like employee satisfaction and commitment. Person-Organization Fit (P-O Fit) reflects the compatibility between an individual's attitude and organizational norms, as well as between personal traits and organizational values (Krajcsák, 2017).

Transformational leaders promote open communication and collaboration, which are essential for a strong learning culture. By fostering trust and psychological safety, employees feel more comfortable sharing their knowledge, seeking feedback, and engaging in collective problem-solving (Li *et al.*, 2015). This culture of openness and collaboration enhances the organization's ability to learn from successes and failures.

Proposition 1: Transformational leadership positively impacts to organizational innovative culture

Organizational Learning Culture and Organizational Innovative Culture

One of the primary ways OLC influences innovation is through knowledge creation and sharing. Nonaka and Takeuchi (1995) introduced the concept of the "knowledge-creating company," emphasizing the importance of transforming individual knowledge into collective organizational knowledge. When employees actively share insights, experiences, and best practices, they contribute to the development of new ideas and innovative solutions. Ideas for both exploration and exploitation stem from active learning within the organization, with absorptive capacity playing an additional role (Alsaied & Alkhoraif, 2024).

Organizations with a strong learning culture provide platforms for employees to exchange knowledge, such as workshops, brainstorming sessions, and cross-functional teams. These practices encourage collaboration and ensure that innovative ideas are refined and implemented effectively. Without a culture of learning, knowledge tends to remain siloed, limiting an organization's ability to innovate. Individuals are drawn to organizations whose members share similar values, interests, and personalities. Likewise, organizations except in some cases tend to select individuals whose attributes align with existing members and organizational needs (Kravariti *et al.*, 2024). Ahmed *et al.* (2023) stated that organizations should provide a research culture (learning culture) along with leader support.

A learning culture encourages employees to develop creative problem-solving skills, which are essential for innovation. Amabile (1996) argues that an environment that supports learning and exploration enhances intrinsic motivation, a key driver of creativity. When employees are given the opportunity to learn new skills, engage in meaningful work, and experiment with new approaches, they are more likely to generate innovative ideas. But, Cultural barriers that prevent employees from sharing knowledge should be eliminated through effective policies and a shift in organizational culture (Iqbal *et al.*, 2024).

Psychological safety, as defined by Edmondson (1999), refers to an environment where employees feel comfortable expressing ideas, asking questions, and taking risks without fear of punishment. When employees feel safe to experiment, they are more likely to propose novel ideas and test innovative solutions. In contrast, organizations that discourage learning or penalize mistakes create a culture of fear, where employees hesitate to take risks. Without a safe space for learning and experimentation, innovation is stifled. Organizations that prioritize learning cultivate a culture of curiosity and openness, where employees see failure as an opportunity for growth rather than a setback.

Proposition 2: Organizational learning culture positively impacts to organizational innovative culture

The Mediating Role of Organizational Learning Culture

While transformational leadership directly influences organizational innovation, its impact is often mediated by organizational learning culture (Berson et al., 2006). An organizational learning culture refers to the shared values, beliefs, and practices that promote continuous learning, knowledge-sharing, and adaptation within a company (Watkins & Marsick, 1996). When transformational leaders encourage employees to acquire and apply new knowledge, they create an environment where learning is embedded in daily operations, leading to greater innovation (Lopez, Peón, & Ordás, 2005). Organizational learning culture acts as a bridge between leadership and innovation by fostering employees' abilities to generate, disseminate, and implement new ideas effectively (Kang, Morris, & Snell, 2007).

This study is grounded in Social Learning Theory (Bandura, 1977) and the Knowledge-Based View (KBV) of the firm (Grant, 1996). Social Learning Theory suggests that employees model behaviors from their leaders,

meaning that transformational leaders can shape an innovative culture by demonstrating creativity and openness

to new ideas. Meanwhile, KBV posits that knowledge is a strategic asset, and organizations with strong learning cultures are more likely to leverage knowledge for innovation. These perspectives highlight the role of organizational learning as a mechanism that translates transformational leadership into an innovative culture. However, any behavior requires underlying knowledge and an evaluation of the pros and cons of the activity before taking action, which, in this case, refers to knowledge behavior (Raziq & Saleem, 2024).

A well-developed innovative culture directly contributes to organizational performance by increasing efficiency, employee engagement, and adaptability (Tellis, Prabhu, & Chandy, 2009). Studies have shown that companies with high innovation orientation tend to outperform competitors in terms of financial returns, operational efficiency, and customer satisfaction (Dobni, 2008). Innovative organizations can swiftly respond to market needs, improve internal processes, and leverage new technologies to optimize business operations (Liao, Fei, & Liu, 2008).

An organizational culture that supports innovation creates an environment where employees feel empowered to express new ideas, experiment, and take calculated risks (Amabile, 1996). Transformational leadership, a key driver of innovative culture, enhances employee motivation by encouraging autonomy, intellectual stimulation, and a shared vision for innovation (Jung, Chow, & Wu, 2003). Organizations that cultivate a learning-oriented culture encourage employees to develop new skills, collaborate across teams, and contribute meaningfully to innovation initiatives (Senge, 1990).

Proposition 3: Organizational learning culture mediate the effect of transformational leadership to organizational innovative culture
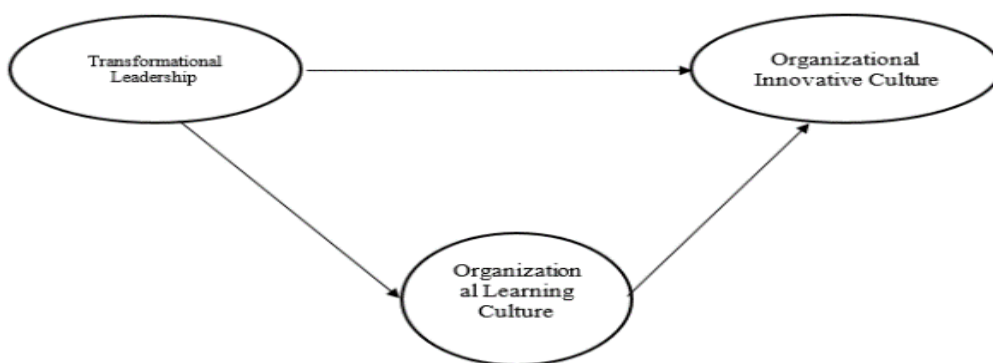

Fig.1.Conceptual Framework of Study

DISCUSSION

Leadership plays a critical role in linking organizational learning culture to innovation. Transformational leaders, who inspire and empower employees, create an environment that supports continuous learning and improvement. Bass (1999) suggests that leaders who emphasize learning foster a culture of innovation by encouraging employees to think independently, challenge the status quo, and seek creative solutions. workplace or business unit subcultures can exist within the broader organizational and societal culture, possessing characteristics and values that foster change and innovation (Twati, 2006).

Leaders who prioritize learning also invest in employee development, providing access to training programs, mentorship, and resources that enhance employees' skills and knowledge (Green et al., 2013). By modeling learning behaviors themselves, leaders set a precedent for curiosity, adaptability, and innovation within the organization (Abdul Manaf & Abdul Latif, 2014).

In an era of rapid digital transformation and globalization, organizations must be agile and adaptable to survive (Chan et al., 2021). Innovative cultures enable firms to anticipate changes, pivot strategies, and seize emerging

opportunities (Drucker, 1985). Agile organizations that embed innovation within their culture are better equipped to navigate crises, such as economic downturns or technological disruptions, and maintain their competitive edge (Manser Payne *et al.*, 2021).

Sustainability has become a core business priority, and organizations that integrate sustainable innovation into their culture contribute to environmental, social, and economic well-being (Adams et al., 2016). Companies with strong innovative cultures are more likely to develop eco-friendly solutions, implement corporate social responsibility (CSR) initiatives, and adopt green technologies, ensuring long-term viability and compliance with regulatory standards (Dangelico, Pujari, & Pontrandolfo, 2017).

The ability to learn and adapt is closely linked to an organization's dynamic capabilities. Babelytė-Labanauskė & Nedzinskasm (2017) stated that dynamic capabilities as an organization's ability to integrate, build, and reconfigure internal and external competencies in response to changing environments. A strong learning culture enhances these capabilities by equipping employees with the knowledge and skills needed to navigate complexity and uncertainty. Organizations that invest in continuous learning are better positioned to identify emerging trends, respond to market disruptions, and develop innovative solutions. In contrast, organizations that fail to prioritize learning risk stagnation and a decline in competitiveness.

CONCLUSION

In summary, this study looks at how transformational leadership helps create a culture of innovation within organizations, highlighting the important role that a learning culture plays in this process. By bringing together leadership, learning, and innovation, this research offers valuable insights into how companies can develop lasting competitive advantages in a fast-changing business landscape. This study is based on Social Learning Theory (Bandura, 1977) and the Knowledge-Based View (KBV) of the firm (Grant, 1996). Social Learning Theory posits that employees emulate the behaviors of their leaders, allowing transformational leaders to foster an innovative culture by exemplifying creativity and openness to new ideas. In contrast, the KBV asserts that knowledge is a strategic asset, and organizations with robust learning cultures are better positioned to leverage this knowledge for innovation.

A culture of innovation is crucial for companies that want to boost their competitiveness, enhance performance, engage their employees, share knowledge effectively, and adapt to new challenges. Given its strong connection to sustainability, flexibility, and ongoing learning, nurturing an innovative culture should be a top priority for organizations that want to succeed in today's economy.

REFERENCES

1. Abdul Manaf, A. H., & Abdul Latif, L. (2014). Transformational leadership and job performance of SMEs technical personnel: The adaptability cultural approach as mediator. Mediterranean Journal of Social Sciences, 5(20),648–655. https://doi.org/10.5901/mjss.2014.v5n20p648
2. Ahmed, I., Islam, T., Afzal, R., Iqbal, I., & Faheem, M. A. (2023). Predicting the link between employees' task performance and propensity to take charge: the role of family supportive supervision and LMX. International Journal of Emerging Markets. https://doi.org/10.1108/IJOEM-12-2021-1859
3. Alsaied, M. K., & Alkhoraif, A. A. (2024). The role of organizational learning and innovative organizational culture for ambidextrous innovation. 31(2), 205–226. https://doi.org/10.1108/TLO-06-2023-0101
4. Amabile, T. M. (1996). Creativity and innovation in organizations. Harvard Business School Publishing.
5. Babelytė-Labanauskė, K., & Nedzinskas, Š. (2017). Dynamic capabilities and their impact on research organizations' R&D and innovation performance. Journal of Modelling in Management, 12(4), 603–630. https://doi.org/10.1108/JM2-05-2015-0025
6. Bandura, A. (1977). Social Learning Theory. Prentice-Hall.
7. Bass, B. M. (1990). From transactional to transformational leadership: Learning to share the vision. Organizational Dynamics, 18(3), 19–31. https://doi.org/10.1016/0090-2616(90)90061-S
8. Belak, J. (2011). Management and governance : organizational culture in relation to enterprise life

cycle. 2009. https://doi.org/10.1108/K-04-2014-0082

9. Carmeli, A., Gelbard, R., & Reiter-Palmon, R. (2013). Leadership, creative problem-solving capacity, and creative performance: The importance of knowledge sharing. Human Resource Management, 52(1), 95-121.

10. Chan, A. J., Hooi, L. W., & Ngui, K. S. (2021). Do digital literacies matter in employee engagement in digitalised workplace? Journal of Asia Business Studies, 15(3), 523–540. https://doi.org/10.1108/JABS-08-2020-0318

11. Dangelico, R. M., Pujari, D., & Pontrandolfo, P. (2017). Green product innovation in manufacturing firms: A sustainability-oriented perspective. Business Strategy and the Environment, 26(4), 490-506.

12. Garcia-Morales, V. J., Lloréns-Montes, F. J., & Verdú-Jover, A. J. (2008). The effects of transformational leadership on organizational performance through knowledge and innovation. British Journal of Management, 19(4), 299-319.

13. Grant, R. M. (1996). Toward a knowledge-based theory of the firm. Strategic Management Journal, 17(S2), 109-122.

14. Green, A. E., Miller, E. A., & Aarons, G. A. (2013). Transformational leadership moderates the relationship between emotional exhaustion and turnover intention among community mental health providers. Community Mental Health Journal, 49(4), 373–379. https://doi.org/10.1007/s10597-011-9463-0

15. Gumusluoglu, L., & Ilsev, A. (2009). Transformational leadership and organizational innovation: The roles of internal and external support for innovation. Journal of Product Innovation Management, 26(3), 264-277.

16. Iqbal, S., Ullah, S., Rizwan, A., & Nazeer, N. (2024). The impact of organizational culture on knowledge sharing and absorptive capacity : a study of the microfinance institutions in Pakistan. https://doi.org/10.1108/SAJBS-01-2024-0038

17. Joo, B. K., Yoon, H. J., & Jeung, C. W. (2012). The effects of core self-evaluations and transformational leadership on organizational commitment. Leadership and Organization Development Journal, 33(6), 564–582. https://doi.org/10.1108/01437731211253028

18. Jung, D. I., Chow, C., & Wu, A. (2003). The role of transformational leadership in enhancing organizational innovation: Hypotheses and some preliminary findings. The Leadership Quarterly, 14(4-5), 525-544.

19. Krajcsák, Z. (2017). Relationships between employee commitment and organizational cultures : a theoretical framework. https://doi.org/10.1108/IJOA-05-2017-1174

20. Kravariti, F., Jooss, S., & Dieck, M. C. T. (2024). Talent management in the hospitality and tourism industry : the role of societal and organisational culture. 260–278. https://doi.org/10.1108/IJCHM-04-2024-0522

21. Li, C., Zhao, H., & Begley, T. M. (2015). Transformational leadership dimensions and employee creativity in China: A cross-level analysis. Journal of Business Research, 68(6), 1149–1156. https://doi.org/10.1016/j.jbusres.2014.11.009

22. Liao, S. H., Fei, W. C., & Liu, C. T. (2008). Relationship between knowledge inertia, organizational learning, and organizational innovation. Technovation, 28(4), 183-195.

23. Manser Payne, E. H., Dahl, A. J., & Peltier, J. (2021). Digital servitization value co-creation framework for AI services: a research agenda for digital transformation in financial service ecosystems. Journal of Research in Interactive Marketing, 15(2), 200–222. https://doi.org/10.1108/JRIM-12-2020-0252

24. Martins, E. C., & Terblanche, F. (2003). Building organisational culture that stimulates creativity and innovation. European Journal of Innovation Management, 6(1), 64-74.

25. Nana, F., & Otoo, K. (2024). The mediating role of organizational learning culture in the nexus of human resource development practices and employee competencies. 720. https://doi.org/10.1108/AJEMS-10-2023-0387

26. Naranjo-Valencia, J. C., Jiménez-Jiménez, D., & Sanz-Valle, R. (2016). Studying the links between organizational culture, innovation, and performance in Spanish companies. Revista de Administração de Empresas, 56(2), 202-214.

27. Nonaka, I., & Takeuchi, H. (1995). The knowledge-creating company: How Japanese companies create the dynamics of innovation. Oxford University Press.

28. Rashwan, K. A., & Ghaly, M. (2022). The effect of transformational , transactional and authentic

leadership on innovation : the mediating role of organizational culture. 17(4), 561–575. https://doi.org/10.1108/CBTH-09-2021-0216

29. Raziq, M. M., & Saleem, S. (2024). Organizational culture , knowledge sharing and organizational performance : a multi- country study. https://doi.org/10.1108/BPMJ-07-2023-0549

30. Senge, P. M. (1990). The Fifth Discipline: The Art and Practice of the Learning Organization. Doubleday.

31. Tellis, G. J., Prabhu, J. C., & Chandy, R. K. (2009). Radical innovation across nations: The preeminence of corporate culture. Journal of Marketing, 73(1), 3-23.

32. Twati, J. M. (2006). The impact of organisational culture innovation on the adoption of IS / IT : the case of Libya. 19(2), 175–191. https://doi.org/10.1108/17410390610645076

33. Tushman, M. L., & O'Reilly, C. A. (1997). Winning through innovation: A practical guide to leading organizational change and renewal. Harvard Business School Press.

34. Zuraik, A., & Kelly, L. (2019). The role of CEO transformational leadership and innovation climate in exploration and exploitation. European Journal of Innovation Management, 22(1), 84-104.