The Role of Humble Leadership for Creativity and Innovation for Startups

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Abstract

Humble Leadership (HLB) has gained increasing attention in research recently as the world becomes more complex and the difficulty rises for leaders to know everything on their own. There is not much-published research concerning the role of HLB for the creative and innovative (C&I) behaviour of employees in startups. The purpose of this research article is to find out how HLB can foster creative and innovative related to the business model development and under which circumstances it is effective. This article may suggest that the effectivity of HLB differs over the lifecycle stage and the kind of the affected creativity and innovation. External development associated with an earlier stage requires the leader to admit failures whereas for internal development associated with a later stage the spotlighting of followers strengths becomes more important. This article adds insights to the HLB research, the business model related to creativity and innovation research and gives practical advises to the founders and investors which behaviours are useful to accelerate a corporate's success.

Keywords: Humble Leadership, Creativity, Innovation, Startup, Lifecycle Stage

Introduction

Young and technology-based corporate can contribute to an essential part to create employment and innovations (Bollinger, Hope & Utterback, 1983; Dorfman, 1983). The positive economic effects associated with those kinds of corporate only come into effect if they can establish in the market successfully. They must transform their technology into product or service which will be appreciated by the market (Walter, 2010).

In the digital businesses, the market entrance became easier by having lower barriers due to the minimum amount of physical assets necessary to create and test a product (Ries, 2011). Market conditions and technology environment change faster. Becoming and staying successful means to create new products and services put continuous efforts to improve them by innovation. Under those conditions, the importance of creativity and innovation is emphasized by scientist and practitioners (Ford & Gioia, 1995; King & Anderson, 2002). Hence, the founders of startups across various industries aspire to create and transform their corporate in order to be capable to realize desired innovations (Fahlenbrach, 2007; Ling, Simsek, Lubatkin & Veiga, 2008).

Background

Research showed that corporate leaders have a significant effect on the innovative outcome of their employee (Chen, Tang, Jin, Xie & Li, 2014; Kang, Solomon & Choi, 2015). Recently, humble leadership (HLB) becomes more relevant in research (de Haan, 2015). It evolved through the growing complexity and diversity of firms which implies that it becomes less feasible for corporate leaders to know everything and to steer every decision. Owens and Hekman, (2012) described humble leaders as those who inhabited one or all of the three traits: 1). Admitting mistakes and limitations, b). Spotlighting follower strengths and contributions and c). Modelling teachability. They discovered positive impacts on corporate outcomes. As positive effects of HLB, they described an improved leader-follower relationship through identification and an increased follower engagement especially for intrinsically motivated employees (Owens & Hekman, 2012).

Problem Statement

Founders of startups are confronted with changing situations every day and have to balance different challenges. Research indicated that the corporate environment of young and innovative startups differs from that of large corporate. As contingencies, they defined the number of resources available, the degree of uncertainty and a closer relationship between the corporate leaders and their employees (Ensley, Hmieliski & Pearce, 2006). Hence, this article can add insights to the body of corporate leadership research in regard to startups.

Significance

This article is relevant for both, researchers and practitioners, to understand how founders can accelerate one of their most important assets, their innovative outcome concerning products and service development and their customer orientation. HLB sounds to be a promising concept as the volatile markets relevant for the raising attention of HLB are especially true for startups. Therefore the purpose of this article is to explore the role of humble readership for followers' creativity and innovative behaviour in startups model.

This article will provide insights for current founders as well for those people who are about to launch startups. It may also provide indications for investors which corporate leadership traits a founder or team should inhabit in order to raise up a corporate in highly volatile environments successfully. Especially interesting for practitioners, this article will also take a look at how well humble leadership fits the lean startup philosophy.

Humble Leadership

The attention on humility and humble leadership rose in recent times. As the world becomes more complex (Senge, 1990) and diverse, markets continue to globalize and firms grow and change faster, humility becomes more relevant. In such environments, the difficulty increases for a single leader to know everything by himself (Owens & Hekman, 2012). Deriving from the Latin words 'humus' for the earth and 'humi' on the ground, literally speaking humble leadership means 'leading from the ground' (Owens & Hekman, 2012), implying that corporate leaders consider their followers as valuable and equal cooperation partners. They provide them with the necessary drive, capabilities, resources and confidence to complete their leadership skills. In common sense, humility is sometimes seen as a weakness but researchers argue it is more a trait which leads to a more powerful and effective leadership behaviour (Morris et al., 2005; Nielsen, Marrone & Slay, 2010).

Owens and Hekman (2012) conceptualized humble leadership as leaders who inhabited behaviours which are observable by peers and followers. In changing environments it is continuously necessary to learn and improve. Admitting mistakes and limitations refers to the willingness to view oneself accurately (Owens et al., 2013). Leaders with that trait are seeking realistic feedback to build up an objective view of themselves. It helps to improve the interpersonal interactions between leaders and their followers. Self-disclosure often leads to increased trust, relational satisfaction and reciprocal disclosure (Owens, et al., 2013). An accurate self-awareness also helps leaders to know in which areas they are capable to decide and in which areas it would be better to learn more about an issue.

Spotlighting follower strengths and contributions means in the first place to acknowledge others' strengths. In the second place, it means to show them that a leader values those strengths and efforts. By holding a non-heuristically, complex view of others (Owens et al., 2013) humble leaders can identify others' valuable resources better and can deploy their employees more beneficially in corporate activities.

Corporate leaders which are modelling teachability show openness to learning, feedback and new ideas from others (Owens et al., 2013). Humble leaders are open-minded, they seek for advice and they have a desire to learn (Owens et al., 2013) Under the conditions of a knowledge-intensive economy the absorptive capacity is one of the most critical ones for an effective leader.

Owens and Hekman (2012) describe humility as a fundamental catalyst to develop themselves and their followers. By acknowledging mistakes and limitations they are honest about the areas for improvement, they foster learning among their followers by spotlighting their strengths and they serve as a role model for learning by behaving curious and working on their own development.

Creative and Innovation

Innovative behaviour is an important factor in the success of corporate (Walter, 2010). Creativity typically refers to the production of new and useful ideas by an individual or a small group of individuals working together whereas innovation refers to the actual implementation and usage of those ideas in business context (Anderson, Potocnik & Zhou, 2014). Research construes the relationship between creativity and innovation as a multistage process, creativity in this context is perceived as a reaction to problem recognition (Janssen, 2000; Krause, 2004). Problem recognition will be followed by idea generation, the creation of an environment of support for ideas and finally ideas implementation (Kang et al., 2015).

In the first place a corporate needs a climate which favours novel and useful ideas (Amabile, 1996; Ford, 1996). Baer (2012) describes the implementation of ideas as a social-political process. The relationship between creativity and innovation is moderated by employees' motivation, their ability to network and existing relationships which determines to which extend ideas are realized. Ford (1996) suggested goals, rewards, capabilities and emotions as underlying issues for motivation. Furthermore, other mediators as discussed in research are cross-cultural differences, motivational orientations and leadership preferences (Rank et al., 2004). Krause (2004) examined how leadership affects innovative behaviours, She figured out that granting freedom and autonomy are highly relevant to innovative behaviours. Referring to the social-exchange theory Janssen (2000) found evidence for the effect between the perceived effort-reward fairness and the innovative behaviour of employees, which means that employees become more engaged in innovation when they can expect higher personal rewards.

Leadership Influence on Creativity and Innovation

Kruse defines corporate leadership as the process of social influence, which maximizes the efforts of others, towards the achievement of a goal (Kruse, 2013). As Gardner (1990) elaborates leadership is the accomplishment of group purpose, which is furthered not only by effective leaders but also by innovations, entrepreneurs and thinkers; by the availability of resources; by questions of value and social cohesion.

The following argumentation of Ensley et al., (2006), Kang et al., (2015) suggest a more directive corporate leadership could be helpful for the performance in terms of setting expectations and clarifying contingent rewards. The high uncertainty of startups in that stages and a lack of job security for employees might require corporate leaders to radiate more direction due to a more transactional leadership behaviour (Ensley et al., 2006).

Tarabishy et al., (2005) and Waldman and Yammarino (1999) exhibit another point why startups differ from larger corporate. Executives tend to be more influential in corporate of a smaller size because the relationship between leaders and their followers is more intimate which concludes that leaders have a more accurate view of their employees. Thus their transformational leadership style could be better adapted to the corporate and though more influential in leader's will (Waldman & Yammarino, 1999). As humble leadership is more associated with transformational leadership than with transactional leadership (Judge & Piccolo, 2004), this study suggests that findings in transformational leadership are particularly adaptable.

Besides Goncalves et al., (2015) no published research links humble leadership to the innovative outcome of followers. Goncalves does not identify a direct link between humility and innovative outcome but humble behaviour as a facilitator to create conditions for individuals and teams to be creative. They figure out that not self-reported humility but humility as reported by team members created an atmosphere where teams feel psychologically safer, which raises their psychological capital and at the end leads to be more creative.

Business Model Development

Startup

Startups gain increasing attention in the world's economy. As defined by Ries (2011), a startup is a human institution designed to create new products and services under conditions of extreme uncertainty. Blank and Dort (2012) define the startup as a temporary organization in search of a scalable, repeatable, profitable business model. Generally, startups are labelled as young ventures with an over-proportioned growth and an innovative potential to differentiate from market and competitors limited by scarce resources in funding and employee (Hahn, 2014). Learning plays a central role in a startup as characterized by Ries (2011): a startup exists to learn how to build a sustainable business. He added this learning comes from experiments based on certain assumptions. When experiments appear to succeed, an entrepreneur found a piece of a puzzle of a potentially successful business model. When assumptions are falsified the team becomes more experienced and is able to test the next set of assumptions (Ries, 2011; Blank & Dorf, 2012).

Lean Startup Approach

In an early lifecycle stage usually, revenues are significantly lower than the costs of operations. This results in losses, therefore startups are dependent on financing sources outside of the operating business (Leach & Melicher, 2012). At the very beginning founders' funds, money from friends and families helps to cover the first expenditures (Hahn, 2014). But hiring the first employees often calls for investors with strong financial power life business angels, venture capitalist and banks.

Unless founders are encouraged to experiment on one hand they are constantly in need to deliver success to sustain the investors trust on the other hand. In the beginning, this success comes out not to be economical but at least investors want to perceive that actions are on the right track to realise future profits. This leads to a dilemma founders face: on one hand, they need to give the freedom to experiment and on the other hand, they are in charge to spend resources economically and create success. Forbs formulated the twist as follows: Focus, Focus, Focus… But on What? (Roth, 2012). As solutions, he proposed that entrepreneurs should build their firm around a market need with customers in the front seat, because startups would fail more often because of a lack of customers than a failure in product development (Roth, 2012). This might have a distinctive impact on the leadership behaviour of founders.

At this point, the lean startup approach developed by Ries (2011) is a suitable concept. He describes how an entrepreneur is able to test his ideas with the help of a minimum viable product. Without large investments, it would be possible to realise if a customer understands the product or service, if it reduces or eliminates the customer's problem, if the product delivers a certain value and if the customer has a suitable willingness to pay. By this approach, an entrepreneur can conduct experimentation but still be focused because wrong ideas are eliminated fast and resources are spend still spend economically.

If it turns out that a product or a particular feature of a product can address its customers, it can be introduced to the target market and the first revenues can be generated. Further customer feedback helps to continuously improve the product or service.

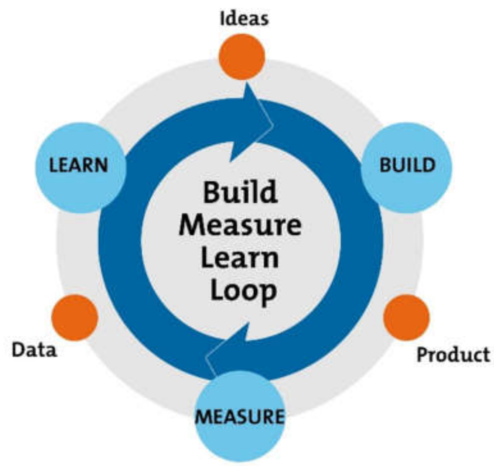

Figure 1 Depiction of the Build-Measure-Lean Loop

Figure 1 depicts the Build-Measure-Learn Loop (Ries, 2011). The concept is based on the aim to get in customer contact as fast as possible to receive a more precise view of the customer demands. The first step is the idea. The idea will be build or programmed as an MVP. According to Steve Blank, an MVP seeks to build the smallest possible feature set (Blank & Dort, 2012). After measurements are defined to test whether a product is fine or not, the prototype will be offered to the customer. Although the revenues are not important in this stage, Ries (2012) states it is important to set a price for the product to get customer feedback as realistic as possible. From the data generated, the entrepreneurial team has a basis for further learning. The data indicates more precisely what the customer wants and which features s/he does not value. From those outcomes, new ideas can be generated.

This approach refers to the customer development concept which emphasized customer orientation instead of product orientation as Maurya (2012) emphasizes, understand the customer's worldview before formulating a solution. Blanks follows with the provocative statement: There are no facts inside your building, so get the beck outside (Blank & Dort, 2012). The lean startup approach highlights the essential role of learning and creativity but also states that entrepreneurial success comes from stringent management steering rather than luck or chance (Ries, 2011).

The lean startup approach has strong implications on the leadership behaviour of entrepreneurs. They are called to train their employees in deductive an inductive thinking and they must create an atmosphere where employees are motivated to experiment and do not feel blamed when they make a mistake. Hence, the HLB trait admitting mistakes and limitations is supposed to play a role when founders manage their startup by applying the lean startup approach.

Business Model

The product is crucial for corporate success but especially to actually reach customers. The business model describes the rationale of how a corporate creates, delivers and captures value (Osterwalder & Pigneur, 2010). Schallmo defines the business model as a corporate's basic logic which value will be delivered to customers and partner and the value will be delivered (2013). The business model answers the question of how the delivered value comes back to the corporate in form of revenues.

Osterwalder and Pigneur (2010) developed a framework for a business model which makes it intuitively understandable, relevant and simple. The framework enhances its function as a tool to communicate about strategic opportunities and discuss with employees and partners. They called their framework business model canvas which consists of four main areas separated in nine parts: customers (Customer segments, customer relationship and channels), offer (value propositions), infrastructure (key activities, key partners and key resources) and financial viability (cost structure, revenue streams).

As the environment of corporate changes also a business model needs to be adapted over time if not totally changed. Also, newly gained insights can work as an impetus for adjustments. Usually, a business model becomes more complex in later lifecycle stages when the corporate supplies more than one customer group. But for the beginning, focusing is more important than trying to cover all potential revenue streams (Ries, 2011; Roth, 2012).

Lifecycle Stages

Ventures undergo a maturation process in their first years. Leach and Melicher (2012) defined five stages of successful ventures in their early lifecycle: development stage, start-up stage, survival stage, rapid-growth stage and early-maturity stage.

In the ***Development Stage****,* the entrepreneurial team generates ideas for a potential product, service or process and assesses the associated business opportunities by getting initial feedback from friends, family members and professionals. Positive feedback brings the potential founders closer to building a prototype for the prospected project.

The ***Startup Stage*** describes the time when the venture and funding are organized and the founders focus on a business model and plan. The acquisition of any initial resources is also a part before at the point zero the first product or service is sold.

In the ***Survival Stage,*** the venture is generating more revenue but does not typically cover all costs from the operations. It is dependent on external financing sources and has, therefore, to convince external financing sources for future profits. Often the business will refocus or restructure based on the initial market experiences.

After the business model has become more established, the ***Rapid-growth stage*** starts. The cash flows from operations are growing faster than the cash outflows. The venture benefits from economies of scale in production and distribution. The management focus shifts from exploration to exploitation. During the rapid-growth stage, the venture breaks through the break-even point.

After the ***Early-maturity Stage,*** the growth continues but at lower rates than in the stage before. Often in this stage, the entrepreneurial team decides to undergo an exit through a sale or merger.

Table 1: Classification of Lifecycle Stages

FIGURE 1.2 LIFE CYCLE STAGES OF THE SUCCESSFUL VENTURE

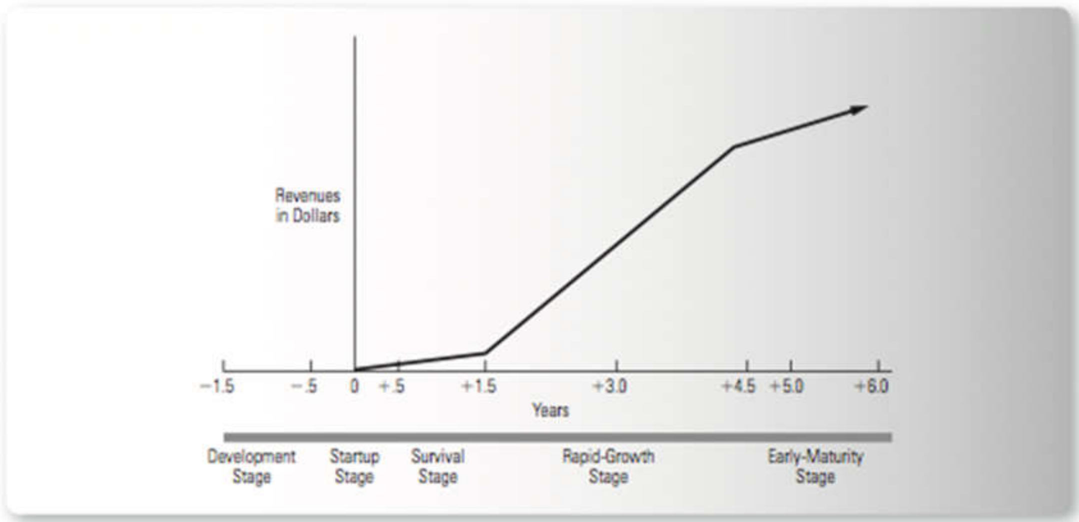

Table 1: Classification of Life Cycle Stages

<table>
<tr><td>Development Stage</td><td>Startup Stage</td><td>Survival Stage</td><td>Rapid Growth I Stage</td><td>Rapid Growth II Stage</td><td>Early Maturity Stage</td></tr>
<tr><td rowspan="2">Developing Opportunities</td><td colspan="2">Gathering Resources</td><td colspan="3" rowspan="2">Building and Managing Operations</td></tr>
<tr><td></td><td>Building Operations</td></tr>
<tr><td colspan="3">Operating Losses</td><td colspan="3">Operating Profits</td></tr>
<tr><td colspan="4">Negative Cashflow</td><td colspan="2">Positive Free Cashflow</td></tr>
<tr><td>Market Research / Assess Market Potential</td><td colspan="2">Initial Marketing Activities / Bootstrapping, Word-of-mouth</td><td colspan="2">Large Marketing Investments</td><td>Sustainable Growth Activities</td></tr>
<tr><td>Prototyping / Trial-service</td><td>Launch / Rollout Build of Corporate / Customer Acquisition</td><td>First Employees / Revenue Creation</td><td colspan="2">The professionalisation of Management / Leadership and Acquisition of HR gains Importance / maybe Restricting</td><td>Corporate Culture / Process / Optimisation / Focus on</td></tr>
</table>

				Future Markets
	Initial Revenue Model	Impress Financially to Attract Further Investments	Rapid Increase of Value	Exit (Often)
Industry Revenue Growth				Stable Industry

Concluding Remarks

This article revealed practical implications for the startup scene twofold: Application of the lean startup approach and the life cycle dependency. First, the research revealed that humble leadership plays an important role in the application of the lean startup approach. Founders are encouraged to implement humble leadership behaviours in their daily business to support the innovative outcome of their employees. In some cases like time pressure, they must balance the advantages and disadvantages but overall HLB revealed to be supportive of the success of their corporate.

Secondly, during the lifecycle the requirements on corporate leaders changes. It seems that founders must adapt their humble leadership behaviour on the innovative needs of the corporate. For business model development in early stages admitting mistakes appear to be helpful whereas in later stages the spotlighting of followers becomes more important. Those insights could be also relevant for investors which support the corporate they invested in. If management staff is recruited in later stages, they might look for other traits that the leaders show in their behaviour than they look in earlier stages.

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