THE IMPACT OF MANAGEMENT STYLES ON INNOVATION CAPABILITIES IN COMPANIES IN LATVIA

[1]BARBA LIELBARDE, [2]SALVIS LIELBARDIS, [3]ANDA BATRAGA, [4]JELENA SALKOVSKA

[1,2,3,4,]Universityof Latvia
E-mail: [1]Barba.Lielbarde@gmail.com, [2]Salvis.Lielbardis@gmail.com, [3]Anda.Batraga@lu.lv, [4]Jelena.Salkovska@lu.lv

Abstract - The competitiveness of a country and, consequently, economic growth is not possible without innovation. According to the World Economic Forum report (World Economic Forum, 2019), the methodology for determining competitiveness includes 12 factors determining the competitiveness of a country, which are respectively grouped into four categories, one of which is the innovation ecosystem, which includes business dynamics and innovation capabilities. The management style of a company is of great importance for the development of these capabilities, which can both promote and hinder the aforementioned development. The aim of the study is to investigate the impact of the management styles of company managers on the innovation capabilities of a company. To achieve the aim of the study, a document analysis was conducted on the types of management styles and their relationship with the innovation capabilities of companies, as well as an online survey (CAWI) of Latvian entrepreneurs was conducted in cooperation with the research company Norstat Latvia within a panel of entrepreneurs and business managers. The main results of the study show that the expansion of management functions often occurs together with the creation of new positions and changes in the organizational structure, and also confirm that people who have received education in the management sector more often continue to expand their knowledge in this area, but representatives of other sectors do so less often, especially if they have not chosen to continue their education at higher educational levels. In addition, it is observed that the democratic management style promotes the introduction of digital solutions, while liberal management managers use digital solutions more. The introduction and use of digital solutions is one of the factors characterizing innovation capacity, therefore the results of the study can be interpreted as significant for studying the impact of management styles on the innovation capacity of a company.

Keywords - Management Styles, Innovation, Innovation Capabilities

I. INTRODUCTION

The Global Innovation Index (GII) 2024 reflects the performance of innovation ecosystems in 133 economies and tracks the latest global innovation trends. The 2024 measurements show that Latvia ranks 42nd in the world in the overall GII ranking (GII, 2024), 26 points behind neighboring Estonia (16th place) and 7 places behind neighboring Lithuania (35th place). For comparison, in the European region, Latvia ranks 26th out of 39 countries, but Estonia and Lithuania rank 6th and 22nd in the European region, respectively. The State Audit Office of the Republic of Latvia (SARL) indicates that in the European Innovation Scoreboard (2023), Latvia ranked 25th among the 27 EU countries in 2023 and, after five years of representing the group of moderate innovators, has slipped to the lowest group of emerging innovators. Latvia's competitiveness is significantly weakened by institutional shortcomings, insufficient quality of infrastructure, low innovation performance, as well as insufficient development and quality of entrepreneurship (SARL, 2023). The authors indicate that insufficient development and quality of entrepreneurship also depends on the management style chosen by the company manager for the development of the organization and the quality of operations. In order to determine whether Latvia has the potential to improve its business environment, where one of the factors is innovation, it is necessary to analyze the innovation capabilities among small and medium-sized enterprises in Latvia. One of the determining aspects of innovation capabilities is organizational management, which includes management decisions and a strategic approach to managing the company's operations, which, in turn, affects the development and use of resources. A company's management style can largely determine how management decisions are made and a strategic approach to the organization's development is developed.

Goleman, D., American psychologist, author, and science journalist, has stated that New research suggests that the most effective executives use a collection of distinct leadership styles — each in the right measure, at just the right time. Such flexibility is tough to put into action, but it pays off in performance (Goleman, 2000).

II. LITERATURE REVIEW

To analyse the impact of leadership styles, the authors have summarized D. Goleman's explanation of leadership styles in terms of their impact on the effectiveness of a company's operations. According to D. Goleman's comparison of leadership styles in promoting organizational development (Goleman, 2000), the authors indicated that the democratic management style develops innovativeness in a company, as it promotes innovation, employee involvement and motivation, but a drawback is a slower decision-making process. In addition to the

democratic management style also promote innovativeness, but additionally promote the personal growth of employees, contributing to an increase in the level of employee competence.

The existing literature analysis shows that the knowledge and skills of managers and the organizational culture are key elements of innovation. The authors José A. Pedraza-Rodríguez, Andrea Ruiz-Vélez, M. Isabel Sánchez-Rodríguez, Manuel Fernández-Esquinas found that management skills negatively affect innovation outcomes. This is explained by diffuse opportunities, as cultural elements operate at a deeper level, possibly due to insufficient managerial and technical training in R&D&I of managers or the absorptive capacity of employees (José A. Pedraza-Rodríguez&co, 2023). Similarly, the authors Vilay Saythongkeo, Vinh D. Le, and Lobel Trong Thuy Tran have investigated how management style affects innovation performance in the context of financial services companies. Using the PLS analytical approach and the dynamic capabilities perspective (DCP), the aforementioned authors found that collaboration ability positively affects the relationship between management style and innovation performance. The finding also indicates that learning negatively moderates the relationship between collaborative ability and innovation performance (Saythongkeo&co, 2022).

Lewin, K., Lippitt, R., & White, R. K. (Lewin, K., 1939) described the classical leadership styles: authoritarian, democratic and liberal, while Hersey, P., & Blanchard, K. H. defined the situational leadership theory and its adaptability to different situations (Hersey, P., & Blanchard, K. H., 1969), indicating that this leadership style is characterized by a flexible approach, adaptation to the situation and people, but the autocratic leadership style is characterized by strict control, hierarchy and giving precise instructions, while the democratic leadership style is more associated with involvement, team decision-making and cooperation, in contrast to the liberal leadership style, which is more appropriate for minimal intervention and trust in employee autonomy. Researchers of the theory of transformational and transactional leadership style Burns, J. M. (Burns, 1978). and Bass, B. M. (Bass, 1985). describes the above leadership styles as leadership tools for motivation and inspiration. The coaching leadership style has been analyzed by Whitmore, J. (Whitmore, 1992), emphasizing the coaching approach in management and employee development. Bianchi, C. and Steele, M. show the integral role of coaching in idea generation and the innovation process (Bianchi, 2014).

The authors emphasize that successful information flow is also one of the factors influencing innovation capacity, as it allows for prompt communication of new ideas, promotes creativity and feedback. Cekuls, A. points out that successful information flow is hindered by mutual distrust among employees. Trust was considered an essential element of interaction in relationships and social exchange (Cekuls, A., 2015). The authors add that mutual trust and prompt information flow as part of the organizational culture are aspects that promote innovation capacity. The importance of cooperation is also confirmed by Šavriņa, B. with a team of authors, defining cooperation as a process that manifests itself in all areas of business activity. Since there are several types and forms of cooperation, the manager of each company must choose the most appropriate one – formal and informal, vertical and horizontal, centralized and decentralized (Šavriņa, B., 2008). These forms and hierarchies of cooperation are closely related to the management style in the company. It is only necessary to evaluate the benefits and drawbacks of each form of cooperation in order to achieve the company's strategic goals, including developing innovation capabilities.

Summarizing the research of the aforementioned authors, a summary of the areas influencing leadership style in organizational leadership was created. The authors indicate that, taking into account the elements that promote innovation: knowledge and skills of managers, organizational culture, collaboration skills and innovation performance, the leadership styles that most promote innovation are:

- democratic leadership style, because it promotes cooperation and the leader also participates in decision-making,
- situational management style, because the manager has a flexible approach and the ability to adapt to circumstances, which, in the opinion of the authors, are necessary skills specifically in terms of innovation, because according to Boyles, M. innovation is a product, service, business model or strategy that is both new and useful. Innovations do not have to be major breakthroughs in technology or new business models; they can be as simple as improvements to a company's customer service or added features to an existing product (Boyles, 2022). In the authors' interpretation, "new" in the business context is no older than 2 years, so the ability to quickly adapt to changing business environment conditions is a critical innovation capability.
- Transformational and transactional management style, because it promotes creativity and motivation to achieve higher results. Cekuls, A., studying the relationship between transformational leadership, commitment to change, and organizational support for creativity, has found that this relationship is stronger for individuals with high organizational support for creativity compared to those with low support (Cekuls, 2016).

- Coaching management style, because with its management methods it promotes innovative processes, as well as develops a culture of innovation in general.

The authors believe that the autocratic leadership style hinders the formation and development of innovative capabilities with strict control and a certain hierarchy, which in rapidly changing business conditions can hinder development, whereas the liberal leadership style hinders the development of innovative capabilities by providing too much freedom to employees of organizations, which can cause confusion among employees and decision-making due to a lack of manager involvement. This is also confirmed by the study conducted by Henriques, P.L. and the authors' team on the impact of destructive leadership on innovation (Henriques, P.L., 2019), where the results reveal that destructive leadership has a negative impact on innovation and an ethical microclimate in the organization. The results show that an ethical climate in the organization has a positive impact on innovation, reducing the relationship between destructive leadership and innovation.

Shavriņa, B. and Sedlmayr, L., in their study of different leadership styles and specific characteristics of female and male leadership styles, found that the concentration of power and central decision-making, which are considered characteristics of male leadership, are effective in critical economic situations. The caring, empathy and harmonious relationships that characterize female leadership are considered effective in preparing for critical economic situations. The advantages of female leadership styles are partially offset by the disadvantages resulting from prejudice and discrimination against women, which cannot be compensated for by the changing perception of women's roles. Leadership theories in relation to gender are limited because leadership can be situational and require specific behavior in specific situations regardless of gender roles (Šavriņa, B., 2016).

The authors add that according to the results of this study, male leadership characteristics are more characteristic of the authoritarian leadership style, while female leadership characteristics are more consistent with the situational leadership style, thus female leaders would be more conducive to innovation, but the aforementioned claim still requires additional research to ensure that the gender factor is not influenced by stereotypes prevailing in society.

III. DATA AND RESEARCH METHODOLOGY

To determine the impact of management styles on companies' innovation capabilities, a survey was conducted, in which only respondents who indicated that they were business owners or worked in management positions in companies were interviewed. A total of 831 invitations to participate in the survey were sent out, 253/831=30% response rate. Number of respondents who fully filled out the questionnaire and successfully completed data entry: 253. After data cleaning, 250 respondents, excluding respondents who used the answer "hard to say" too often from the indexes. Respondent selection: A panel of managers (has at least 1 subordinate) and entrepreneurs (owns a company in which they actively participate) - Norstat Latvia recruited respondents who agreed to provide answers to the questions and receive compensation for doing so. Survey method: Computer Assist Web Interviews, available on the web on a computer and smart phone, including through an application intended for respondents. The survey period is from January 24, 2025 to January 30, 2025.The survey was conducted in Latvian, among the population of Latvia. Research type: quantitative research, a survey with a formalized questionnaire for an approximately 7-minute survey, which includes 10 questions that must be answered. The margin of error of the survey results does not exceed Δ=6.3% with a probability of P=0.95. Survey objective: To assess the impact of management styles on small and medium-sized enterprises in Latvia.

IV. RESULTS & DISCUSSION

The results indicate several statistically significant correlations that are worth paying attention to. Using Kendall's tau_b correlation, those that are significant at the $p < 0.05$ level were analysed (* significance at $p < 0.05$, ** significance at $p < 0.01$).The results of the SPSS calculation show Kendall's tau-b correlation coefficients between different questions in the survey. The results obtained indicate several statistically significant correlations that are worth paying attention to:

1) Changes and digitalization of work processes.
To analyze the results of the study, correlations were calculated related to work process changes and digitalization. The significant correlations are related to the introduction of new management functions and/or management specialists and the digitalization of work processes: $r = 0.131$, $p < 0.05$ (*),which indicates that companies that introduce new management functions are also more likely to introduce digitalization, such as electronic document management.

2) Digitalization of work processes and education of managers:

Negative and significant correlation ("Has any of your education been in the field of social science management?"), r = -0.152, p < 0.05 (*). People with a management education are less involved in digitalization. Negative and significant correlation ("Have you received additional education/taken courses in the field of social science management?")'r = -0.159, p < 0.05 (*). People who have completed management education are less involved in digitalization. Negative and highly significant correlation ("How long has it been since you last received your education?"), r = -0.174, p < 0.01 (**). If a longer period of time has passed since you received your education, a person is less likely to engage in digitalization. Authors' interpretation of the correlations of leadership styles in relation to the education of managers, the introduction and digitalization of new workplaces, as well as the introduction of hybrid work.

The correlation results indicate that management education and courses are associated with lower levels of innovation and process change, especially in the areas of digitalization and hybrid work. Higher education is also associated with more frequent organizational changes, such as job restructuring, but people who learn less often experience changes in the workplace less often. It is found that a longer period since obtaining education is associated with lower levels of innovation, especially in the area of digital transformation.

When performing a regression analysis of the obtained data on the impact of leadership styles on organizational structure change, it was found that transformational leadership style (B = 0.029, p = 0.006, Exp(B) = 1.029) is the only significant factor on organizational structure change, thus each additional point in transformational leadership style increases the likelihood of organizational structure change by 2.9%.

ManagementStyle	B (Beta)	p-value(Sig.)	Exp(B) (OddsRatio)	Interpretation
Autocratic	-0.002	0.754	0.998	No significantimpact
Democratic	-0.009	0.441	0.991	No significantimpact
Liberal	-0.001	0.937	0.999	No significantimpact
Transformations	**0.029**	**0.006**	**1.029**	**Statisticallysignificanteffect(p < 0.05)**
Transactional	-0.004	0.630	0.996	No significantimpact
Coaching	-0.007	0.279	0.993	No significantimpact
Situational	-0.002	0.813	0.998	No significantimpact

Table 1.Interpretation of the statistical significance of the influence of leadership styles

Note: Statistically significant effect at p<0.05

When conducting a regression analysis on the impact of leadership styles on work process change, it was found that the only statistically significant variable is the coaching leadership style (p=0.018p = 0.018p=0.018, Exp(B) = 1.015), such that each additional coaching leadership style point increases the likelihood of work process change by 1.5%. In addition, the authors indicate that the transformational leadership style also shows a positive trend (p=0.281p = 0.281p=0.281), but is not statistically significant.

Mainīgais	B	Wald	Sig.	Exp(B)	Interpretācija
Q1Autocratic	-0.004	0.389	0.533	0.996	Notstatisticallysignificant
Q1Democratic	0.000	0.002	0.966	1.000	Notstatisticallysignificant
Q1Liberal	-0.009	0.571	0.450	0.991	Notstatisticallysignificant
Q1Transformations	0.010	1.161	0.281	1.010	Notstatisticallysignificant, but trend positive
Q1Transactional	0.003	0.195	0.659	1.003	Notstatisticallysignificant
Q1Coaching	**0.015**	**5.591**	**0.018**	**1.015**	**Statisticallysignificant ($p = 0.018$) –** increasesthelikelihoodofchangingworkprocesses
Q1Situational	-0.008	1.348	0.246	0.992	Notstatisticallysignificant

Table 2.Interpretation of the statistical significance of the influence of leadership style as a variable

Note: Statistically significant result at p=0.018

V. CONCLUSIONS

The literature review and empirical study results indicate that leadership styles that foster innovation include democratic, transformational, and coaching styles, as they promote collaboration, creativity, digitalization, and, when necessary, the restructuring of the organization. For instance, the transformational

leadership style has a statistically significant effect on organizational structure changes, but leadership styles do not appear to influence the introduction of new management functions. Regression analysis reveals no evidence that any specific leadership style significantly impacts the elimination or retraining of positions, nor do they notably affect the digitalization process. However, the democratic leadership style has been shown to support the implementation of digital solutions within companies.

The findings also suggest that the expansion of management functions often correlates with the creation of new positions and changes to the organizational structure. On the other hand, changes in work processes are typically tied to digitalization and the introduction of new work organization forms. The coaching management style, in particular, increases the likelihood of changes in work processes.

Additionally, individuals with education in management are more likely to continue expanding their knowledge in this area. In contrast, those from other sectors, particularly if they haven't pursued higher education, are less inclined to continue their education. Lastly, the authoritarian leadership style does not contribute to the development of innovative capabilities but is deemed suitable for managing companies during crisis situations.

PROPOSALS

To enhance the innovative capabilities of companies, it is essential to complement quantitative research with a qualitative study focusing on managers of small and medium-sized enterprises (SMEs) in Latvia. This study would aim to identify the management styles within specific companies, alongside assessing their performance indicators, including financial analysis and decision-making methods. The sample should consist of respondents who have been managing their respective enterprises for at least the last three years. This time frame would allow for a comparison of the company's innovative capabilities before and after the specific manager assumed their role.

The authors hypothesize that the results from the qualitative research will provide additional insights into how different management styles impact the innovative capacities of companies. Furthermore, the findings could contribute to developing a mechanism for selecting company leaders who align with the strategic goals of the organization.

REFERENCES

[1] Bass, B. M. (1985).. Leadership and Performance Beyond Expectations.

[2] Bianchi, C., Steele, M. (2014), Coaching for Innovation. Tools and Techniques for Encouraging New Ideas in the Workplace, SpringerNature, https://doi.org/10.1057/9781137353269

[3] Boyles, M. (2022), Innovation in business: what it is and why it`s important, Harvard Business School, https://online.hbs.edu/blog/post/importance-of-innovation-in-business

[4] Burns, J. M. (1978)., Leadership.

[5] Cekuls, A. (2015), Leadership Values in Transformation of Organizational Culture to Implement Competitive Intelligence Management: the Trust Building Through Organizational Culture. European Integration Studies, 2015/9. DOI: https://doi.org/10.5755/j01.eis.0.9.12811

[6] Cekuls, A. (2016), The Concept of Information Sharing Behaviors in Complex Organizations: Research in Latvian Enterprises, Journal of Systemics, Cybernetics and Informatics, https://www.iiisci.org/Journal/SCI/Abstract.asp?var=&id=ZA467XI16

[7] Global Innovation Index 2024, (2024), https://www.wipo.int/web-publications/global-innovation-index-2024/en/

[8] Henriques, P.L., Curado, C., Jerónimo, H.M., Martins J. (2019), Facing the Dark Side: How Leadership Destroys Hersey, P., & Blanchard, K. H. (1969)., "Life Cycle Theory of Leadership." Training and Development Journal. Organisational Innovation, Journal of technology management & innovation, http://dx.doi.org/10.4067/S0718-27242019000100018

[9] Goleman, D., (2000), Emotial intelligence – Leadreship That Gets Results, Harvard Business Review, https://hbr.org/2000/03/leadership-that-gets-results

[10] Lewin, K., Lippitt, R., & White, R. K. (1939)., Patterns of aggressive behavior in experimentally created social climates. Journal of Social Psychology

[11] LR Valstskontrole, (2023), Kāuzlabotuzņēmējdarbībasinovācijuatbalstapolitiku?, 102 lp.

[12] Pedraza-Rodríguez, J.A., Ruiz-Vélez, A., M.Sánchez-Rodríguez, I., Fernández-Esquinas, M., (2023), Management skills and organizational culture as sources of innovation for firms in peripheral regions, https://doi.org/10.1016/j.techfore.2023.122518

[13] Šavriņa, B., Grundey, D., Bērziņa, K., (2008). Cooperation – the form of sustainable tourism industry, Vilnius Tech Journals, DOI: https://doi.org/10.3846/1392-8619.2008.14.151-161

[14] Šavriņa, B., Sedlmayr, L., (2016), Leadership styles and their specific correlation to gender - theoretical standpoint, Inderscience Online Journals, DOI:10.1504/IJEPEE.2016.10002398

[15] Saythongkeo, V., Le, V.D., Trong Thuy Tran, L. (2022), Leadership Styles and Innovation Performance: The Role of Coopetition Capability and In-Learning in Financial Service Firms, Sage Journals, https://doi.org/10.1177/21582440221079901

[16] Whitmore, J. (1992)., Coaching for Performance: Growing People, Performance and Purpose.

★★★