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Title

Managers' risk taking behavior and innovation performance: the mediating influence of employees' perceived risk raking climate

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Research Topic

The ability of firms to innovate is a primary factor in gaining and sustaining competitive advantage (Nelson and Winter, 1985). Hence, a widely supported idea is that innovative behaviors should be highly encouraged across all levels of the organization, given that such behaviors are likely to exert a positive influence in organizational effectiveness (Amabile et al., 2005; Woodman et al., 1993). The focal point of our research is on the relationship between risk taking and innovation performance, from both a managerial and an employee perspective.

The link between risk taking and innovation has been analyzed from two different, but connected perspectives. From a managerial perspective, the lens of entrepreneurial orientation and leadership theories have provided useful insights to establish a direct relation between managers' risk taking an innovation (Ling et al., 2008; Wu et al., 2005; Lyon et al., 2000; Lumpkin and Dess, 1996; Covin and Slevin, 1986). From an employee perspective, scholars have pointed that an organizational climate promoting risk taking will be effective in fostering innovative behaviors among employees (Gilson and Shalley, 2004). Although work from both views has significantly advanced in the understanding of the nature of the link between risk taking and innovation performance, little empirical research has analyzed this link through a combined perspective. To address this issue, in this paper we argue that managers' risk taking behavior not only exerts a direct effect over innovation performance. Rather, it indirectly influences employees' innovation performance through its positive impact over the perceived risk-taking climate in the organization.

Theory Background

Innovation is central in establishing and sustaining competitive advantage of firms (Teece et al., 1997; Nelson, 1991). The evolution of an increasingly complex environment has placed innovation as an indispensable option when planning to increase firms' performance and assure its growth and ultimate survival (Daellenbach et al., 1999; Damanpour, 1991). Innovation can be defined as the successful implementation of new ideas (Myers and Marquis, 1969). This interpretation of innovation includes novelty and use as two conditions that must be fulfilled. In this sense, innovation not only requires of new ways of solving problems but also involves use or achievement of commercial success.

The determinants of innovation have been extensively researched (Vega-Jurado et al., 2008; Jansen et al., 2006; Papadakis et al., 1998). In particular, managers have been repeatedly recognized as strategic decision makers including, among other domains, their critical role in recognizing opportunities and making decisions that affect innovation processes (Alexiev et al., 2010; Vaccaro et al., 2010; Elenkov et al., 2005). Several streams of research propose that manager's risk taking can make a difference in defining the propensity of the firm to innovate. For instance, anchored in strategic management research, the upper echelons perspective has studied the risk taking propensity of managers through characteristics such as tenure, age or diversity and their effect on innovation performance (Wu et al., 2005). Moreover, studies based on leadership literature have also assessed top management teams propensity for risk

taking behaviors and their influence in innovative processes and outcomes (Ling et al., 2008).

While the positive influence of managers' risk taking over innovation performance has been well examined, there is a scarcity of empirical studies showing the underlying mechanisms of this relationship. In order to tackle this issue, this article develops and tests a mediating effect of the perceived risk-taking climate in the relation between managers' risk taking and innovative performance. The organizational climate has been used to explain a wide range of employees' behaviors (e.g.: Naumann and Bennett, 2000; Anderson and West, 1998). The basic contention of this paper is that the managers' risk taking climate will not only have a direct and positive influence over innovation performance. Rather, we posit that the perceived risk-taking climate of the organization it is also shaped by managers' risk taking. By having a climate where risk-taking is widely accepted, employees will be in better position to contribute to the overall innovation performance of the organization.

Research setting, Data & Measures

We used structural equation modeling to test our hypotheses on a sample of 183 Italian and Spanish ceramic tile producers. These companies represent 50% of the target sample. A single industry is utilized to test our research hypotheses: ceramic tiles producers in Italy and Spain. Aggregate production on these two districts is similar and both have been traditionally study together (Chiva and Alegre, 2009). Our focus on a single industry reduces the range of extraneous variations in the data which could influence the constructs of interest. Analyzing a single sector has the advantage that it avoids a problem common to inter-sectoral studies, of technological and economic diversity of products (Coombs et al., 1996; Santarelli and Piergiovanni, 1996). We acknowledge the disadvantages of this sampling in terms of limiting generalizability but we believe that they are outweighed by the advantages offered by this approach.

Items dealing with innovation performance were addressed to those managers that were in charge of product development. Items dealing with managerial risk-taking and employees´ risk-taking climate were addressed to Human Resource managers. Pre-testing was carried out on four technicians from ALICER, the Spanish Center for Innovation and Technology in the industry of ceramic, to ensure comprehensibility of the questions in the context of the ceramic tile industry. The questionnaire used a 7-point Likert scale.

To measure managerial risk-taking, we use the dimension of risk taking of the Covin and Slevin´s (1986) entrepreneurial orientation scale. To measure employees´ perceived risk-taking climate we use the items proposed by the literature (Isaksen et al., 1999; Amabile et al., 1996). Finally, for innovation performance we used the scale provided in the OECD's (2005) Oslo Manual

Discussion

The final results are explained in the following lines: First, the present research provides empirical evidence that managerial risk taking is positively related to employee's perceived risk taking climate. In the development of our theoretical framework we considered social cognitive and signaling theory as two theories that explain the mechanisms through which risk taking can be transmitted from upper to lower echelons.

While the former, expects that individuals learn vicariously, the latter assumes information asymmetry and expects managers to consciously emit signals to employees. Though based in distinct assumptions, both theories support the relevance of manager's role in generating a climate where risk-taking is supported.

Second, this study also provides empirical evidence that employee's perceived risk taking climate enhances innovation performance. Scholars dealing with organizational climate have paid attention to the distinct dimensions integrating this concept, such as innovation climate. For instance, King et al. (2007) showed that a climate for innovation exerted a positive effect on organizational performance. However, even though some studies have theoretically reasoned that risk taking climate can affect innovative behavior and outcomes (Yuan and Woodman, 2010; Ekvall, 1996) empirical tests analyzing the relationship between risk-taking climate and innovation performance are surprisingly still lacking.

Third, we show that manager's risk taking has an indirect positive effect on firm's innovation performance, which is mediated by risk-taking climate. Hence, risk-taking climate plays a pivotal role in ultimately explaining the effect of manager's tendency towards risk on innovation outputs. Companies counting with managers that are able to translate their risk taking attitude towards the rest of employees within the organization are able to perform better in contrast to those firms that fail.

In brief, this study shows that the role of employees' risk taking climate is determinant in mediating the relationship of manager's risk taking and innovation performance. On the one hand, the results of this study contribute to upper echelon and other leadership behavior theories by demonstrating that the effect of manager's risk taking on innovation is not direct but it is rather mediated by a relevant contextual factor: risk-taking climate. On the other hand, this study contributes to the literature of organizational climate. In this case, we empirically validate that risk-taking climate has a significant effect on innovation performance.

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