

How Formalization Impedes Employee Creativity and Organizational Innovation: A Case of Advertising Agencies in Pakistan

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Abstract

Based on control-creativity paradox, the study aims to investigate the relationship between formalization, creativity and innovation. Using survey-based questionnaire the data were collected from 309 creative departments' employees of the advertising agencies in Pakistan. The data was analyzed using Regression for direct hypotheses and Model 4 of the Process Macro for the indirect hypothesis. The results indicate that formalization has a negative association with employee creativity, indicating that high formalization in organizations leads to low idea generation. The formalization also suppresses organizational innovation indicating that formalization stifles the idea implementation in organizations. The mediation analysis also revealed that formalization negatively influences the employee creativity, which consequently hinders organizational innovation.

Keywords: Formalization, Creativity, Innovation, Advertising Agencies.

Introduction

The individual creativity and organizational innovation within the organization have always been one of the competitive edges in the industry (Amabile & Pratt, 2016). A number of studies have identified that there are number of organizational bureaucratic factors like formalization of rules and control that hinder individuals' creativity and innovation in different organizational contexts (Hirst, Knippenberg, & Zhou, 2009). There is no doubt that creativity and innovation are the essential elements for any dynamic organization, but the bureaucratic practices like control, rules and regulation are equally important (Burns & Stalker, 1961) to maintain discipline. A number of organizational management proponents argued that bureaucracy helps to maintain the consistency, discipline and compliance of the minimum standards at all levels of the organizations (Hirst *et al.*, 2009).

The formalization is termed as rules to maintain the consistency in the organizational control and to the compliance of minimum standards (Bolin & Harenstam, 2008). An extensive review of literature of the field of inquiry indicates that creativity and innovation are the nomenclature of creation of new, novel and unique ideas, which

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may solve organizational problems more scientifically and satisfy all the stakeholders' needs (Luecke, 2003).

Innovation is the development of something new, like a product, or a process (Axtell, Holman, & Wall, 2006). A number of studies demonstrated that innovation plays a significant role in the competitive corporate world. The most dynamic organizations encourage their employees to develop new ideas that are creative, yet not all of them are able to implement these ideas (Miron, Erez, & Naveh, 2004). The organizations are attempting to develop a creative environment for new ideas of the employees, which should be considered and appreciated, and if workable, they might be materialized within the organization (Ng, Feldman, & Lam, 2010). Therefore, if workable ideas are not materialized in the organization in the form of creativity and innovation the firm may lose its competitive advantage within the industry (Tellis, Prabhu, & Chandy, 2009) particularly in the context of advertising agencies in Pakistan.

Problem Statement

Max Webber, the founding father of bureaucracy, highlighted a number of issues of organizational formal control in his written work "*Essay in Sociology*" and a number of emerging models have appeared and disappeared to address these issues. Unfortunately, these models and frameworks put the mist on these issues and they remained with the organizational world in this new era. The proposed study contends there might be a need to develop an effective framework to encourage employees' creative ideas and their implementation within the organization in form of innovation. Although, different studies have been conducted by a number of scholars like Witell *et al.* (2017) and Bodewes (2002) to get the right match and develop the right balance between formalization and creativity and innovation. The previous research has turned a blind eye towards this issue. Therefore, the current state of literature calls for a study to evaluate the impact of formalization on creativity and innovation.

Research Question

The advertising business in Pakistan has grown at a fast pace in the past few decades, and the entire idea of advertising organizations has transformed in a matter of a couple of years (Ahmad & Mahmood, 2011). Advertising agencies are in charge of promoting and advertising goods and services. Such organizations are in charge of thinking of innovative thoughts for limited time campaigns. Every top advertising organization has diverse types of customers from all over the world and it is the case in Pakistan. These advertising agencies have to comply with external regulatory bodies' rules and internal SOPs to maintain consistency in their operations. The studies indicate that formalization of rules has an impact on creativity and innovation. The previous literature shows some mixed results and research lacks consensus about either

formalization enhances or stifles creativity and innovation in organizations. Based on the gap in literature and the discussion above, the main question of the study is — *what is the impact of formalization on creativity and innovation?*

Research Objective

As creativity and innovation are the foremost requirements of the advertising agencies in Pakistan, there is a need to study the factors that foster or hinder creativity and innovation. Therefore, the context of advertising agencies of Pakistan has been selected to test the relationship between formalization, creativity and innovation. Thus, the main objective of the study is to determine the impact of formalization on creativity and innovation in the advertising agencies of Pakistan.

Literature Review

The present field of inquiry is based on the organizational behavior and psychology theories developed by the most influential gurus in the discipline of business and management sciences. The theory of bureaucracy presented in Webber's (1946) published work titled "Essay in Sociology" emphasized on the field of public administration and social structure. The major characteristics of bureaucracy presented in this essay include a fixed division of labor, a hierarchy of positions and authority, administration based on written documents and adhering to general rules, thorough and expert training of personnel, and full-time commitment to official activities in the organization. For the present study only one, but a dominant factor of bureaucracy i.e., formalization has been taken under consideration.

Jones (2007) demonstrated that organizational bureaucracy is a clear specification of vertical authority and horizontal task relationship. This clearly indicates that there is no question about every individual's role within the organization. The employees might be held accountable for what they do and such accountability reduces the transactional costs that rise when people continually negotiate and define their organizational goals. The specification of role, use of rules and organizational norms, regulate how tasks are performed. It also reduces the costs associated with monitoring the work of subordinates and increases the integration among the different organizational functions.

The *componential theory of creativity* is a thorough model of the social and psychological components essential for a person to deliver innovative work. The theory is grounded in a meaning of creativity as the generation of thoughts or results that are both novel and suitable to some objective. In this theory, three parts are important for any creative reaction within the individual, i.e., domain relevant skills, creativity-relevant processes, and intrinsic task motivation— and one component outside the individual—the

social environment in which the individual is working. The organizational structure in this regard is one of the most important factors that hinder or foster creativity and innovation at the workplace (Amabile, 1996). The basic requirement for organizations to be more competitive has established the interest of specialists and professionals to better comprehend creativity in organizations. This theory supports the overall argument of the study that organizational structure in the form of formalization has an important impact on creativity and innovation in the organization.

Taylor, Hoy, and Haley (1996) and Luecke (2003) highlighted in their different studies that organizational formalization develop a number of impediments (e.g. unsupportive culture; commitment of top managers; red-tapism; complex processes; too much focus on control instead of flexibility and work place autonomy) for creative and innovative minds within the organizations. The review of the relevant literature indicates that proponents of the organizational creativity and innovation have common consensus on these impediments and oppose the prevailing views of organizational bureaucracy (Eling & Herstatt, 2017).

It is a universally accepted truth that every organization may run based on their traditions, norms, values and beliefs. Unfortunately, the bureaucratic attitude may lead to organizational members to too much reliance on rules and regulations that may make them unresponsive to the dynamic needs of their stakeholders i.e., creativity and innovation. It is observed from the literature review (Ahearne, Mathieu, & Rapp, 2005; Bolin & Harenstam, 2008; Hirst *et al.*, 2011) that within a bureaucracy over the period of time decision makers and managers fail to properly control the development of the organizations in the manner advocated by Webber (the founding father of bureaucracy and organizational hierarchy).

Formalization and Employee Creativity

The notion of formalization is considered in the study as a critical component of organizational bureaucracy (Blau & Schoenherr, 1971). The relevant review of literature highlighted that formalization is the essence of organizational bureaucracy which ensure the implementation of the stringent rules, regulations and SOPs at every level of the firm (Baer, 2012). These rules and regulations (formalization) may impact the creative expertise of the employees within the organizations that ultimately suppress technical, procedural and tacit knowledge of the individuals. A number of studies indicated the cause and effect relationship of formalization and creativity of the employees in different organizational settings that affect the overall performance of the firms (Hirst *et al.*, 2011; Shalley, 1991). The stringent organizational formalization impedes the individuals' tacit knowledge, which affects his/her creativity that ultimately influence the competitive edge of the firm (Ahearne, Mathieu, & Rapp, 2005).

H₁: The formalization has a negative association with employee creativity

Formalization and organizational innovation

The organizational bureaucratic controls may have been the reasons for the poor implementation of the creative ideas i.e., innovation. Luecke (2003) demonstrated the factors like formalization of rules creates barriers to implement the unique ideas that are significant for the organizational innovation particularly in the context of creative firms. A number of studies indicated there is a causal relationship between organizational bureaucracy in the form of formalization and innovation in the most competitive environment (Kim & Leckenby, 2002; Luecke, 2003). Hirst (2011) emphasized that bureaucratic control keep the employees in a circular process in the form of rules and regulations within the organization and never let them to broaden their horizon beyond the set parameters. Based on this discussion the following testable hypothesis is formulated to answer the central research questions of the study:

H₂: The formalization has a negative association with organizational innovation

Employee creativity and organizational innovation

Redmond (2000) demonstrated the unique ideas are always generated by the employees who work in different organizational functions and their processes. These views are also consistent with Shalley and Gilson (2004) that individuals' surroundings are a fertile ground for generation of new ideas. The mere creation of new ideas is useless, unless they are implemented and converted into an innovation (Shalley & Gilson, 2004). The proponents of creativity and innovation like, Janssen (2000) argue that employee creativity is the seed, which helps the tree of innovation to grow in an organization. These views may clearly indicate that creativity and innovation have a cause and effect relationship to enhance the overall productivity of the organization. The creative employees are the ones who do not only come up with new ideas, but they also develop a concrete plan how to implement these ideas and convert them into innovation. Therefore, based on the relationship of creativity and innovation the following hypothesis is developed.

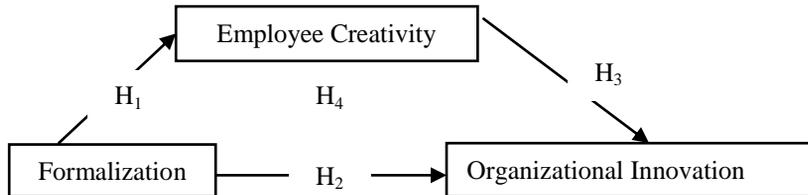
H₃: The Employees' creativity has a positive association with organizational innovation

Employee Creativity as a Mediator

The creativity may be referred as the creation of new and workable ideas that can resolve the issues within the organization. The innovation is considered as the successful implementation of these ideas at the workplace. The bureaucratic controls impact individual creativity which ultimately leads to poor innovation (Wiener, 2017). Oldman and Cummings (1996) argued that the innovation in organization is dependent on the creation of new ideas of the people who are working at the process level of any product or a service. An organizational context such as the strict rules and routine orientation

stifle the creative expressions of the employees, which has a direct impact on the organizational innovation (Hirst *et al.*, 2011). Therefore, based on this discussion the testable hypotheses is drawn:

H₄: *Formalization negatively impact employee creativity, which suppress organizational innovation*



Data and Methodology

The population of the study was the employees working in the creative departments of the advertising agencies in Pakistan. A survey-based questionnaire was used to collect cross sectional data from the respondents. Total 600 questionnaires were distributed, out of which 309 were used for the data analysis (response rate = 51.5%). The sample contained 177 male and 132 female employees. The experience of 75 respondents was above 6 years, 101 respondents had 4-5 years of experience, 88 respondents had 1 to 3 years of experience and 45 respondents had less than 1 year experience. Almost all the respondents were well educated as nine had more than 18 years of education, 176 had 16 years of education, 114 had 14 years of education and 10 had 12 years of education.

The data were coded in the SPSS 20.00 and were analyzed statistically. First, the descriptive statistics were analyzed reflecting the feel of the data. To test the first three hypotheses of the study, OLS regression was used. For the mediation analysis the bootstrapping method (model 4) for indirect effect suggested by Hayes (2009) was used, which is considered to be the most sophisticated method available for mediation analysis. The mediation was observed with the indirect effect of the employee creativity between the formalization and organizational innovation. The Sobel test was also performed in order to validate the mediation results.

Measurement

The questionnaire had two parts. The first part contained the demographic questions about the gender, qualification and experience of the employees. The second part contained the items for measuring formalization, creativity and innovation with 5-point Likert scale ranging from (“1” for strongly disagree to “5” for strongly agree). The formalization ($\alpha= 0.878$) is measured with the seven item scale used by Hirts (2011). The employee creativity was measured with twelve items scale ($\alpha= 0.938$) which was adapted from the study of Amabile and Conti (1999). For the measurement of organizational innovation ($\alpha= 0.844$), the Oslo Manual (OECD, 2005) was referred and four items were

used to measure the variable. Table 1 shows the results of factor loadings, the value of average variance extracted, the Cronbach's Alphas, and the composite reliability. The results indicate full support for the reliability and validity of the scales.

Table 1: *Reliability Analysis*

Items	Standardized loading of items		
	Formalization	Creativity	Innovation
#1	.851	.795	.590
#2	.744	.747	.746
#3	.606	.861	.897
#4	.806	.711	.898
#5	.765	.760	
#6	.616	.748	
#7	.813	.562	
#8		.749	
#9		.697	
#10		.753	
#11		.865	
#12		.750	
α	.878	.938	.844
AVE	.560	.641	.629
CR	.898	.940	.869

Data Analysis and Results

The table 2 shows the descriptive statistics and the correlation matrix of the variables. The mean and the standard deviation for formalization (M = 3.098, S.D = .960), for creativity (M = 3.018, S.D = 1.045), and for organizational innovation (M = 2.826, S.D = .971) have been presented.

Table 2: *Descriptive Statistics / Correlation*

	M	SD	1	2	3
1. Formalization	3.098	0.960	1		
2. Creativity	3.018	1.045	-.276**	1	
3. Innovation	2.826	0.971	-.262**	.483**	1

** . Correlation is significant at the 0.01 level (2-tailed).

The correlation results showed the relationship of different variables. It is found that there is a moderate negative correlation between the formalization and creativity ($r = -.276, p < .05$). This mean when organizations increase the implementation of the rules and regulation in terms of formalization, the employee creativity is stifled. The correlation between the formalization and the organizational innovation is also found to be moderately negative ($r = -.262, p < .05$). This means that when rules and documentation in the organization is increased, the implementation of the new and unique ideas (organizational innovation) is decreased. There is a positive correlation ($r = .483, p < .05$) between the creativity and organizational innovation.

Table 3: *Direct Hypotheses Testing*

Hyp	IV	DV	R ²	F	Beta	SE	t	Sig
1	Formalization	Creativity	0.07	25.33	-0.30	0.05	-5.03	0.00
2	Formalization	Innovation	0.25	51.43	-0.14	0.05	-2.71	0.00
3	Creativity	Innovation			0.41	0.04	8.64	0.00

The table 3 shows the results of the hypothesis 1, 2 and 3. The results of regression analysis supported the first hypothesis. It was indicated that 7% variation in employee creativity is caused by the formalization ($R^2 = .07$, $F = 25.33$, $p < .05$). The results of the F-test also showed that the model is fit for regression. The results of beta coefficient indicated ($\beta = -.30$, $p < .05$) that there is a negative relationship between formalization and employee creativity. It showed that with one unit increase in formalization there will be a .30 unit decrease in the creativity. The results of the t-test showed an ample evidence for the support of the first hypothesis ($t = -5.033$, $p < .05$), therefore the first hypothesis of the study is accepted.

The analysis of hypothesis 2 showed that 25% variation in the organizational innovation is being caused by the formalization ($R^2 = .25$, $F = 51.43$, $p < .05$). The results of beta coefficient indicated ($\beta = -.14$, $p < .05$) that there is a negative relationship between the formalization and organizational innovation. It showed that with one unit increase in formalization there will be a .14 unit decrease in the organizational innovation. The results of the t-test showed an ample evidence for the support of the second hypothesis ($t = -2.71$, $p < .05$), hence the second hypothesis of the study is accepted.

The analysis of hypothesis 3 showed ($\beta = .41$, $p < .05$) that there is positive relationship between the employee creativity and organizational innovation. It showed that with one unit increase in formalization there will be a .41 unit increase in the organizational innovation. The results of the t-test showed an ample evidence for the support of the third hypothesis ($t = 8.64$, $p < .05$), consequently the third hypothesis of the study is also accepted.

Table 4: *Mediation Analysis*

	B	SE	t	p
Total effect of formalization on innovation	-.26	.05	-4.76	.00
Direct effect of formalization on innovation	-.14	.05	-2.71	.00
	B	Boot SE	LLCI	ULCI
Indirect effect of formalization on innovation (Mediation of Creativity)	-.12	.02	-.17	-.07
	B	SE	Z	p
Normal theory (Sobel Test)	-.12	.02	-4.32	.00

The fourth hypothesis was tested using the mediation method recommended by Hayes (2009). The number of bootstrap samples for bias corrected bootstrap confidence intervals was kept at 1000, while the level of confidence for all confidence intervals was kept at 95%.

This test for the mediation analysis provides the total, direct and the indirect effects of the variables in the mediation model. The total effect of formalization on organizational innovation is ($\beta = -.26$, $t = -4.76$, $p < .05$). This shows that with the increase of formalization the organizational innovation will decrease. The results also indicate that there is a direct effect of formalization on organizational innovation ($\beta = -.14$, $t = -2.71$, $p < .05$). Finally, the indirect effect clearly indicated that creativity negatively mediates the relationship between the formalization and organizational innovation. The indirect effect $\beta = -.12$, $[-.17, -.07]$, shows that formalization negatively influences employee creativity which suppresses organizational innovation. The indirect effect is also validated by the normal theory test (Sobel test), which provides ample support ($Z = -4.32$, $p < .05$) for the significance of the mediation results.

Discussion and Analysis

Managers at one hand, often face difficulties when it comes to achieving creative results from the employees. On the other hand, they also desire to keep full control in the organization in the form of formal rules, regulations and documentations to mend behaviors of the employees. The study attempts to inquire the relationship between the formalization, employee creativity and organizational innovation in the advertising agencies of Pakistan.

All four hypotheses of the study have been supported. The results of the hypotheses 1 and 2 indicate that formalization negatively affects employee creativity and organizational innovation. The findings (hypothesis three) also indicate that if creativity is enhanced, the organizational innovation can also be increased, as the idea generation will lead to idea implementation. The findings of the fourth hypothesis indicate that formalization suppress creative expressions of the employees which leads to the low organizational innovation. Amabile (1996) states organizational factors influence individual creativity. In another study, Shalley *et al.* (2004) argued that situational factors in an organization are very important for the creative expression of the employees.

The findings of the present study are also consistent with the view of Amabile (1996) and Shalley *et al.* (2004). The findings of the Hrist *et al.* (2011) also indicate that bureaucratic control such as high formalization hinders creativity in an organization. These findings are also in line with the present study. Baer (2012) empirically investigates the relationship between the creativity and innovation and states that

creativity is the seed of organizational innovation. The third hypothesis supports these findings and indicates that creativity leads to organizational innovation.

The findings of the study lead to a number of theoretical implications to enhance the body of knowledge on formalization, creativity and innovation. A study by Hirst *et al.* (2009) demonstrates that contextual factors may inhibit or stimulate creative ideas in individuals. Another study by Hirst *et al.* (2011) concludes that high formalization impedes the individual creativity. The present study further elaborates that this relationship does not end here, but it also shows that formalization impedes creativity because of which the organizational innovation suffers. The previous research on creativity shed light on the behaviors that are required for a person to be creative (Tett & Burnett, 2003) while this study adds to the existing literature by contributing the organizational factors that inhibit new idea generation in the organizational settings.

It is evident that managers due to control practices sometimes fail to facilitate the employee to take creative initiatives (Bolin & Harenstam, 2008). In the light of the findings of present study, managers in advertising agencies of Pakistan must try to understand the practices that halt the employees to think out of the box. The rigid and formal rules in the organization keep the employees in a routine oriented task, which ultimately hinder the new idea generation.

Formalization is the extent to which organizational rules, regulations and documentation is followed in order to maintain the overall control. These rules are consistent throughout the organization, while there are individual differences among the employees. This contrasting issue violates the person-organization fit phenomenon. The managers must understand the individual differences and create flexibility in the formalization. For that reason, advertising agencies of Pakistan are required to tailor their bureaucratic practices in order to facilitate creativity and innovation.

The present study has some limitations that are worth mentioning. First, the study only investigated the relationship of single bureaucratic factor i.e., formalization with employee creativity and innovation. There are a number of other bureaucratic factor i.e. centralization, rigid hierarchal reporting, strict meritocracy which may have different relationship with employee creativity and innovation. The future research may consider these factors to study the control- creativity paradox. Second, the research is quantitative in its approach; the future research may investigate the relationship qualitatively for in-depth understanding. Third, the study is conducted on the employees of the advertising agencies of Pakistan, and the findings may not be generalized on the employees of other organizations. The future research may be conducted in fashion and media houses in order to find out more interesting findings. Fourth, the data has been collected from 309 employees, and future research may use more sample size in order to increase the

generalizability of the results. Fifth, the study is cross-sectional in nature and non-comparison in its analysis. The future research may be conducted using longitudinal design with the comparison of two or more types of organizations.

Recommendations for Managers

The study suggests that managers should revisit the rules and regulation that they have implemented in organizations to control the employees. The formalization should be objectively analyzed and unnecessary controls should be removed in order to encourage creativity and innovation. As advertising agencies survive because of their creative and innovative ads, managers should focus on the results that employees are producing in the form of a unique ad. The means to make a creative and effective ad should be left with the employees, and they should not be dictated or controlled about how they should do their work. The main suggestion of this study is that managers should weed out the unnecessary formalization that may facilitate creativity and innovation.

Conclusion

The creativity and innovation are the foremost requirements for organizational survival. The organizational control practices, like formalization are also the prerequisite to maintain and control the behavior of employees. The study aimed at investigating the impact of formalization on creativity and innovation in the advertising agencies of Pakistan. The results showed some interesting findings that formalization hinders creativity and innovation. The advertising agencies are required to be creative and innovative, and they have very short time to reflect new ideas for short term marketing campaigns. Currently, organizations in order to control employees are using control practices and painting all the employees with the same brush. The study suggests the reduction in formal rules to facilitate creativity and innovation that may provide organizations a lasting competitive advantage.

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