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Which companies should implement management innovation? A commentary essay

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ABSTRACT

This commentary essay explores the joint effects of internal context and external search for knowledge on new management practices. Mol and Birkinshaw's (Mol, M.J., Birkinshaw, J., The sources of management: when firms introduce new management practices. Journal of Business Research; forthcoming.) research provides an interesting discussion regarding management innovation studies and will likely create promising future research opportunities.

In the past decade, management innovation has become one of the most significant topics in the field of strategic management. Management innovation represents one of the most important and sustainable sources of competitive advantage for firms (Feigenbaum and Feigenbaum, 2005) due to its context specific nature (Birkinshaw, 2008). However, analysis of antecedents and consequences for management innovation as well as its relationship with firm performance has not been fully investigated. In particular, the question of which specific firms are more appropriate for management innovation in order to sustain competitive advantage has not been examined. Mol and Birkinshaw (forthcoming) provide an investigation to fill this gap by examining the joint effects of internal context and external search for new knowledge in terms of a firm's management innovation. The authors present a rigorous empirical investigation which provides a stable groundwork for future studies in an under-developed area.

The concept of management innovation can be traced back to Chandler's (1962) invention of the M-Form structure. However, the prior literatures focus on why firms introduce new management practices, tending to mainly focus on the internal structural context of management (Damanpour, 1987; Kimberly and Evanisko, 1981). Mol and Birkinshaw's research identifies the key gap by pointing out the lack of attention on how external factors interacting with internal contexts affect a firm's implementation of new management practices.

Further, the authors focus on how the interaction between internal context and knowledge sources influences internal and external partners. In addition to internal structural factors, management innovation comes about through interaction with internal and external knowledge sources; more specifically from market participants such as consultants from internal and professional areas. Internal knowledge sources correlate negatively with the context factors of firm size, employee education level and geographic scope. Such a negative correlation suggests that the overlap between internal sources of knowledge and the three contextual factors (firm size, education level and geographic scope) limits diversity in knowledge and ideas. Moreover, firm size is the most important organizational factor influencing the mitigating effect of knowledge sources. The results show that larger firms have less need for using different sources of knowledge for management innovation which confirms that there is a positive correlation between management innovation and firm performance. Thus, suggesting that new management practices can enhance a firm's competitive advantage.

Mol and Birkinshaw's study contributes to our understanding of organizational behavior theory and reference group framework. Mol and Birkinshaw's research highlights the utility of the reference group concept in organizational behavior studies and shows that there are two separate forces involved. One includes conferring with the reference group where a firm belongs. The other comprises of conscious attempts to broaden group professional skills by searching for knowledge sources. While both similar forces may be found in prior management practice literature, Mol and Birkinshaw find that these two forces are not complements, but substitutes.

Mol and Birkinshaw also add new insights through exploring different reference groups. While the existing literature (Abrahamson, 1991, 1996) regarding management style suggests that novel ideas are normally offered by market participants (e.g., consultants), firms may also introduce new management practices via internal and professional sources. For example, most Taiwanese semiconductor firms are highly dependent on internal and professional reference groups for process improvements or innovations. Mol and Birkinshaw's findings complement our understanding of reference group theory by clearly interpreting the practical phenomenon in the real business world.

In terms of contextual setting, Mol and Birkinshaw's research shows how specific characteristics of UK firms and their interactions with knowledge sources enhance a firm management innovation in a highly developed economy. However, this raises an interesting question: Which firms should implement management innovation? Given the fact that firms are heterogeneous based on difference in nationality, a similar research model may not be plausible in a newly

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developing economy, such as Hungary or Poland. This discrepancy does not lessen the contributions of Mol and Birkinshaw's research in the area of management innovation studies. On the contrary, future management innovation studies are encouraged to investigate whether different organizational contexts interacting with knowledge sources in a different national context have an impact on management innovation and firm performance.

Mol and Birkinshaw's study also has important implications for managers in business practice applications. Due to the substitutive nature between organizational contexts and knowledge sources, it is critical for managers to consider how to properly operate these two forces. With a thorough understanding of these forces, managers can better execute the different roles of insiders and outsiders, in the management innovation process. For example, insiders may be more engaged in actual implementation, while outsiders like consultants play a legitimizing role. Furthermore, using relevant knowledge already available internally as well as knowledge dispersed via networks of professionals and markets can increase the capacity for management innovation. Particularly, a presence in wider international markets as well as working with highly educated employees strengthens this capacity by bringing in the analytical capacity and a broader knowledge base needed for management innovation. Hence, managers can work with firms to consciously and systematically invest in management innovation.

Mol and Birkinshaw conduct their research by using a Europe-wide Community Innovation Survey (CIS) database. Out of 19,602 British firms, 8172 firms have responded, making a response rate of 41.7% with a total of 3668 firms used in their analysis. Such a large sample of firms provides a high validity and reliability for empirical examination. Another interesting method adopted by Mol and Birkinshaw is their measurement of management innovation. A single scale is applied with a value of 0 for no management innovation activity at all, with one adds for each type of management innovation which the firm engages in. This measurement indicates the number of areas of management innovation a firm engages in and reveals actual innovation implementations. Utilizing this measurement method overcomes the decoupling problem identified by prior studies (Westphal and Zajac, 2001; Zajac and Fiss, 2001) regarding management practices and performance.

1. Looking ahead

Mol and Birkinshaw position their work in a unique research niche with solid theory development and reasonable empirical interpretation. Extensions and relevant theoretical potential should be highlighted. First, the authors address the area of how organizational context and knowledge search interact with each other. Their findings suggest the need for a better understanding of the interplay between organizational context and knowledge search which raises theoretical implications in the field of reference group research. However, the question remains, can the Mol and Birkinshaw's findings be incorporated into organizational change theory? Organizational resistance and contextual differences would seem to play important roles in organizational change (Ansoff and McDonnell, 1990; del Val and Fuentes, 2003). Routinization and systematization of organizational conditions result in organizational momentum and traditions which create resistance to change. Implementation of new management practices must overcome such resistance to change in an organization. The authors successfully present where a firm's novel management practices come from as well as how to implement these new practices into the existing organization when faced with organization resistance. Future studies should conduct a full investigation on the basis of Mol and Birkinshaw's research.

Although the authors recognize Luk et al.'s (2008) study that the institutional context may moderate the performance results accrued from organizational innovativeness, Mol and Birkinshaw did not test the moderating effect in this study. For instance, firm size may have a negative moderating effect on the relationship between management innovation and performance. Larger firms are inclined to have inertia and which may cause them to resist change or to adopt new management practices (Hannan and Freeman, 1984). As can be seen in many cases, larger firms face more challenges when they attempt to introduce new management practices into their organizations. Moreover, the education level of work forces will also moderate the relationship between management innovation and firm performance. Highly educated work forces may be more willing to accept a new concept of management practice or innovative behaviors (Janssen, 2000), which in turn leads to better firm performance. Geographic scope is another moderator of the relationship between management innovation and firm performance. A wider geographic scope means that a firm may have to deal with cross-cultural administrations in different markets (Hofstede, 1980). Cultural differences increase the difficulty of implementation of new management practices, especially if the culture distance is large as in Asia and the west. Thus, geographic scope may have a negative moderating effect on the positive relationship between management innovation and firm performance. The above mentioned moderating effects of internal organizational context need further investigation in the future studies.

Mol and Birkinshaw's research framework first examines the joint impact of internal context and external search on management innovation. The authors then test the relationship between management innovation and firm performance. Intuitionally, the authors' framework can be regarded as a mediating effect of management innovation on the relationship between internal context/external search and firm performance. However, the authors did not test this possible mediating effect in their research. If we consider incorporating the moderating effect of organizational context into their research, we may derive a revised research framework based on Mol and Birkinshaw's current contributions. As Fig. 1 shows, management innovation mediates the relationship between knowledge source and firm performance. Organizational context simultaneously moderates both relationships of knowledge source and management innovation as well as management innovation and firm performance. The first moderating effect includes Mol and Birkinshaw's research while the second moderating effect comprises of suggestions in the last paragraph. This full model presents a thorough investigation on how

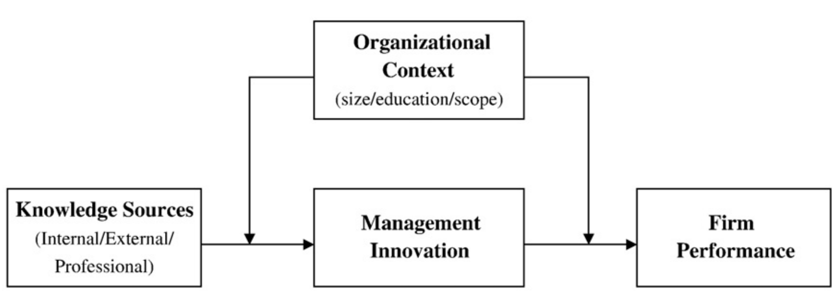

Fig. 1. Future research framework.

management innovation interacts with organizational context and knowledge sources on firm performance.

Mol and Birkinshaw's work should be jointly discussed with the organizational learning theory; particularly in the concept of absorptive capacity. Absorptive capacity is defined as a firm's ability to value, assimilate, and utilize new external knowledge (Cohen and Levinthal, 1990). The question remains, how can a company assimilate firm values and utilize new management practices into the existing organization? Which characteristics of a firm have a higher level of absorptive capacity to introduce management innovation to a firm more successfully? Answers to these questions require the further investigation of management innovation, which may lead to interesting discussions in organizational theory. Research that explains prior theoretical themes and sheds light on future research direction is a contribution to the academia. In short, Mol and Birkinshaw have opened our minds to new avenues of management models.

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