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# Managing for innovation: Managerial control and employee level outcomes

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ABSTRACT

Considerable effort is made by organizations to increase long-term firm performance through innovation. Despite the emphasis on innovation as a source of renewal, relatively little is known about the effective management of human resources supporting innovation efforts. Prior research supports a negative impact of managerial control on the motivation of employees. Following on recent theoretical developments, we argue that the impact of managerial control will differ based on the type of knowledge being used. Using data from 104 members of product development teams working on new product development or current product management, our findings suggest that the use of control can have differing effects on motivation depending on the attributes of the knowledge involved. Specifically, tests of moderation indicated the negative impact of control on employee motivation is much greater when the knowledge being used is less complete (those working on the development of new products).


## 1 . Introduction

The development of new products and services through innovation is increasingly seen as an essential tool for sustained organizational performance (Covin & Miles, 2007; Zahra & Covin, 1995). This process of renewal through innovation is often referred to as corporate entrepreneurship (Phan, Wright, Ucbasaran, & Tan, 2009) and organizations are increasing efforts to build capabilities in this area (Hayton & Kelley, 2006). While a significant amount of research has addressed strategies leading to effective innovation within established organizations (Covin & Miles, 2007; Hayton & Kelley, 2006), less is known about the use of management practices in motivating appropriate attitudes and behaviors from employees involved in this effort (Marvel, Griffin, Hebda, & Vojak, 2007).

One such management practice that is of particular interest in influencing innovation is that of managerial control (Mcgrath, 2001). Strategic human resource management (SHRM) theories argue that employee behavior in support of organizational strategies is dependent on employees having the necessary abilities, motivation and opportunity (Kaifeng, Lepak, Jia, & Baer, 2012). Managerial control is seen as inhibiting employee motivation and reducing employee opportunity (Gagné & Deci, 2005). Higher levels of control exercised by managers inhibit employees' ability to use their discretion to apply knowledge and skills to the needs of the organization (Deci, Connell, & Ryan, 1989). Thus, reduced managerial control (increased levels of autonomy) is seen as an important component of high performance and high commitment work systems (Batt, 2002; Huselid, 1995; Wright, Gardner, Moynihan, & Allen, 2005). Similarly, the entrepreneurship literature supports the argument that managerial control can inhibit entrepreneurial initiative on the part of employees with employee autonomy representing an important component of entrepreneurial orientation (Lumpkin, Cogliser, & Schneider, 2009).

A contrasting viewpoint supports a contingency perspective arguing that the efficacy of managerial control in eliciting desired attitudes and behaviors is contingent on the attributes of the knowledge involved (Turner & Makhija, 2006). Where the knowledge utilized is more complete and readily available, managerial control of employee behaviors and activities is argued to be more effective. Control where the knowledge utilized is less complete would not be as effective (Turner & Makhija, 2006).

These potentially differing viewpoints have specific implications for the management of employees involved in entrepreneurship within established organizations. Product management includes a broad range of innovation from the development of completely new products or services where knowledge would be less complete to the management of existing products where knowledge would be much more complete (Christensen, 1997; Covin & Miles, 2007; Kuratko & Audretsch, 2009; Meyer, 2007). Given the importance of individual employee behaviors and attitudes to these efforts (Burgelman, 1983; Chen & Huang, 2009), it is important for researchers and practitioners alike to understand the conditions under which managerial control might support or deter the motivation of desired attitudes and behaviors from employees. The purpose of this paper is to understand the role of

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managerial control in motivating desired attitudes and behaviors among employees involved in innovation efforts within established organizations and more specifically to understand the role that the attributes of the knowledge involved play in defining that relationship.

## 2 . Theory and hypothesis

### 2.1 . Managerial control

The level of control that managers exercise over employees has long been considered an integral component of effective employee management (Hackman & Oldham, 1976). From the standpoint of SHRM, employee autonomy is generally included in high performance or high involvement work systems (Batt, 2002; Wright, Dunford, & Snell, 2001). According to SHRM theory, the effective management of human capital is comprised of two components. The first involves the development of superior human capital in the form of knowledge skills and abilities (Becker, 1964; Huselid, 1995). The second involves practices that both allow and motivate employees to utilize those skills effectively (Wright et al., 2001). In order for employees to effectively contribute to the needs of the organization, they must have ability in the form knowledge and skills, motivation in the form of appropriate incentives and opportunity in the form of sufficient autonomy to apply their knowledge and skills appropriately (Kaifeng et al., 2012).

Managerial control or control of work processes tends to reduce motivation and limit employees' ability to apply their human capital to the needs of the organization (Schuler & Jackson, 1987). The ability to make decisions regarding day to day tasks has long been considered a motivating factor in work design (Hackman & Oldham, 1980) and is a key component of intrinsic motivation (Deci et al., 1989). Batt (2002) found that increased autonomy on the part of call center employees was an important component of firm performance. Employees were empowered to use their knowledge to solve problems and create innovative solutions. Alternatively, control of work activities has been associated with reduced trust in management (Collins & Smith, 2006; Mayer, Davis, & Schoorman, 1995), and low motivation and commitment (Batt, 2002; Collins & Smith, 2006) and higher turnover (Batt, 2002).

In addition to reduced opportunity, managerial control implies a lack of trust in the ability of employees (Mayer & Gavin, 2005). This perceived lack of trust from managers is then reciprocated creating a lack of trust in management, inhibiting the establishment of exchange relationships between employees and their leaders and reducing motivation and performance (Walumbwa, Cropanzano, & Goldman, 2011; Wayne, Shore, & Liden, 1997)

In addition to human resource management theories, entrepreneurship theories also argue that managerial control inhibits behaviors and attitudes supportive of entrepreneurial efforts (Ireland, Hitt, & Sirmon, 2003). Autonomy is considered an integral part of entrepreneurial orientation (Lumpkin et al., 2009) and supports the ability of individuals to act outside of organizational norms, a key component of successful entrepreneurship (Burgelman, 1983; Dess, Lumpkin, & Covin, 1997). As constraints on behavior imposed by control decrease, employees possess greater discretion to pursue entrepreneurial opportunities (Ireland et al., 2003). This is important because many of these opportunities exist outside the normal scope of business operations and require development of new knowledge or capabilities (Mcmullen & Shepherd, 2006). Accordingly, decreased managerial control has been associated with innovation, the launching of new ventures and increased competitiveness (Lumpkin et al., 2009).

It is clear that a lack of managerial control is an important component of effective human resource management with additional implications for entrepreneurship. We argue that managerial control will inhibit efforts to elicit important employee attitudes and behaviors. Specifically, we argue that increased managerial control will be associated with decreased citizenship behaviors, increased turnover intentions and decreased levels of trust in management on the part of employees.

### 2.2. Organizational citizenship behaviors

One key behavior related to successful innovation within organizations is a willingness on the part of employees to exert effort beyond typical job descriptions. This effort, often described as organizational citizenship behaviors, represents discretionary behaviors on the part of employees that fall outside the formal job requirements and compensation structures of the organization, but contribute to performance (Smith, Organ, & Near, 1983). Citizenship behaviors have been shown to contribute to higher levels of performance (Coyle-Shapiro, Kessler, & Purcell, 2004; Li-Yun, Aryee, & Law, 2007; Smith et al., 1983). As employees extend their effort beyond what job responsibilities require, the organization benefits in the form of increased productivity and performance (Podsakoff, Ahearne, & Mackenzie, 1997). Employees also benefit in the form of increased motivation and job satisfaction (Koys, 2001).

Researchers have argued that the discovery and development of entrepreneurial opportunities are dependent on the willingness of individuals to operate outside normal functions and processes within the organization (Lumpkin et al., 2009). While citizenship behaviors are important in many business contexts, they are especially important in innovation efforts where the ambiguity of the situation requires employees to be more proactive in applying their human capital compared to stable environments (Keil, Mcgrath, & Tukiainen, 2009; Schuler & Jackson, 1987). Researchers have demonstrated that increased managerial control can lead to decreased citizenship behaviors from employees in more standard work roles (Chen & Chiu, 2009; Li-Yun et al., 2007). The implication of lower levels of citizenship behaviors in the context of innovation efforts is lower performance and effort on the job including less willingness to work outside prescribed job roles which can significantly impact the success of entrepreneurial activities (Benkhoff, 1996). Accordingly, we argue that high levels of managerial control will reduce citizenship behaviors from employees in general including those involved in entrepreneurial activities.

**Hypothesis 1.** Managerial control will be negatively related to employee citizenship behaviors.

### 2.3. Turnover intentions

A key employee attitude in effective corporate entrepreneurship is a long-term commitment to the organization as demonstrated by a willingness to remain with the company. Success in innovation requires the ability to build related internal capabilities (Hayton & Kelley, 2006) including the development of specific skill sets and talent among employees (Becker, 1964; Lisboa, Skarmeas, & Lages, 2011). This requires a longer term commitment from employees because development of these capabilities takes time and is at least partially dependent on employees remaining committed to the company over time (Keil et al., 2009). Turnover can be detrimental to capability building efforts (Kacmar, Andrews, Van Rooy, Steilberg, & Cerrone, 2006; Shaw, Duffy, Johnson, & Lockhart, 2005). As employees choose to leave the organization, they take with them key pieces of knowledge and learning, the replacement of which takes both time and effort (Shaw et al., 2005).

High levels of managerial control inhibit the ability of employees to utilize their human capital and in turn gain satisfaction from their work (Deci et al., 1989). This can be especially true among employees involved in entrepreneurial activities where innovation and creativity are required. These lower levels of satisfaction will decrease commitment to the company and increase desires to seek out alternative employment. Thus we argue that managerial control will increase employee intentions to leave the organization including those involved in innovation.

**Hypothesis 2.** Managerial control will be positively related to turnover intentions among employees.