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# Cross-national differences in firms undertaking innovation initiatives: An application of institutional anomie theory<sup>☆</sup>

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## ABSTRACT

In this study, we seek to explain why firms' innovations vary across countries. Drawing on institutional anomie theory (IAT), we test cross-level hypotheses related to firm innovation. Specifically, we apply the fundamental tenets of IAT to argue that innovation is an outcome of positive deviance. Further, we posit that some social institutions (e.g., education, polity) may moderate the relationships between extant cultural dimensions such as achievement, uncertainty avoidance, and in-group collectivism and innovation. To empirically explore these possibilities, we leverage data from 26,859 firms in 27 countries. Through the use of Hierarchical Linear Modeling techniques, we reveal significant interaction effects of in-group collectivism and education, uncertainty avoidance and political stability, and in group-collectivism and political stability on cross-national levels of innovation. Finally, we discuss the theoretical and practical implications of this research and describe avenues for future scholarship in this area.

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## 1. Introduction

Most experts agree that innovation is the most important factor for organizational effectiveness and long-term survival (Amabile, 1988; Ancona and Caldwell, 1987; Edquist, 1997; Kanter, 1988; Mumford, 2000). It provides the basis for which key activities, including operational improvement, cost saving, new product creation, and resource generation, are made possible (Allred and Swan, 2004). In addition to being critical at the organizational level, innovation is also important at the national level for promoting economic development (Westwood and Low, 2003). It is therefore unsurprising to see the considerable academic effort expended to identify facilitators or inhibitors of innovation (Janssen et al., 2004).

Despite the significant effort to conceptualize innovation, we note several gaps in extant literature that form the basis of our study. First, although there are a number of variables related to cultural context that relate to innovation, the vast majority of past research has focused on understanding innovation solely in the United States. Second, many researchers have attempted to describe cross-national differences among firms that have undertaken innovative initiatives through an exclusive focus on national cultures (e.g., Herbig and Dunphy, 1998; Shane et al., 1995). However, many scholars have argued that cross-national differences are best understood through a consideration of not only national culture, but also other contextual factors (Cullen et al., 2004; Hofstede, 2001; Parboteeah and Cullen, 2003; Schooler, 1996). Third, past research has focused on organization-level features that influence innovation (Drazin and Schoonhoven, 1996). Multi-level approaches that incorporate nation-level

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variables in conjunction with organization-level variables have been neglected. Finally, many of the studies that have explored cross-national differences in innovation have relied on secondary data (e.g., patents; [Faber and Hesen, 2004](#)) or other proxy measures (e.g., R&D intensity) to develop indicators for innovation. Studies that utilize primary sources of data related to innovation within firms are needed to more accurately study the phenomenon.

To address these limitations, we use a representative sample of firms from 27 countries to examine cross-national differences in innovation. To comprehensively explain these differences, our investigation of cross-national phenomena incorporates both cultural and social institutions ([Parboteeah and Cullen, 2003](#)). To guide our selection of appropriate national-level variables, we use institutional anomie theory (IAT; [Cullen et al., 2004](#); [Rosenfeld and Messner, 1997](#)) as the overarching framework.

Anomie theory was originally conceptualized to explain negative deviant behaviors, such as suicides ([Durkheim, 1897](#)), crime ([Messner and Rosenfeld, 1994](#)), and various other unethical behaviors ([Cullen et al., 2004](#)). Cultural and institutional drivers result in anomie (i.e., the weakening of norms) and, in turn, increase rates of deviance ([Cullen et al., 2004](#)). Although, the notion of deviance has typically been conceptualized and studied in terms of its negative consequences, it has been associated with a number of positive outcomes as well ([Ben-Yehuda, 1990](#); [Goode, 1991](#)). For example, creativity ([Fong, 2006](#)) and entrepreneurship ([Cullen et al., in press](#)) have both been found to be related to deviance. Similarly, we propose that innovation represents a positive form of deviance. Using cultural dimensions and institutional factors, we explore their combined influence on firms' innovations. Given the conceptual and practical implications of this investigation, we argue that IAT provides a powerful framework for understanding the interaction between firm-level characteristics and national-level factors that relate to innovation.

To fully develop these multilevel, cross-cultural arguments, we organize the remainder of this manuscript in a number of interrelated sections. First, we clarify our approach by providing an operational definition of innovation. Second, we justify the use of IAT as the conceptual framework for our theoretical development. Third, we propose hypotheses that are based on the view of innovation as a form of positive deviance. Fourth, we test the multilevel and cross-cultural arguments inherent in our hypotheses through the use of data from 26,859 firms in 27 countries ([World Bank, 2005](#)). Finally, we discuss and interpret the results of our analyses, and propose managerial implications and directions for future study.

## 2. Firms' innovation and institutional anomie theory

### 2.1. Conceptual framework of innovation

In extant research, innovation has been narrowly defined such that it relates only to technological advances ([Edquist, 1997](#)). However, [Schumpeter \(1939: 87\)](#) argued that innovation should be understood in a much broader sense, claiming that "... innovation combines factors in a new way, or that it consists in carrying out new combinations..." Similarly, [Carlsson \(1995\)](#) and [Nelson and Rosenberg \(1993\)](#) claim that innovation should not be thought to relate only to *product* innovation, but also *process* innovation. They regard innovation "rather broadly, to encompass the process by which firms master and get into practice product designs and manufacturing processes that are new to them, whether or not they are new to the universe, or even to the nation" ([Nelson and Rosenberg, 1993: 4-5](#)). [Lundvall \(1992\)](#) further broadens the concept of innovation by proposing that it relates to "new forms of organization." Given these various, but related conceptualizations, we define structural innovation as the implementation of new organizational methods as a means to increase firm performance. According to this expanded definition, outsourcing major production activities or joint ventures can be considered forms of innovation.

### 2.2. Institutional anomie theory: Foundation, application and extension

The sociological theory of anomie ([Durkheim, 1897](#)) provides the theoretical foundation for institutional anomie theory. [Durkheim \(1897\)](#) first observed that institutional and cultural changes that result from modernization encourage a decline in traditional norms. This decline, in turn, results in an increased rate of deviance. According to Durkheim, anomie emerges when social change weakens the norms that regulate the activities of societal members.

[Merton \(1957\)](#) expands upon [Durkheim's \(1897\)](#) assertions to argue that a sudden social change is not the principal cause of deviant behavior. Instead, deviance results from a disconnect between culturally defined outcomes and the legitimate societal means to achieving those ends. According to [Merton \(1957\)](#), American culture emphasizes the achievement of material wealth, but lacks a social structure that provides legitimate ways to attain the materialistic goals it promotes. As a result, societal members may resort to crime or other deviant behaviors to achieve the material wealth that is impossible to attain through legitimate means. Research has found that when the legitimate achievement of culturally accepted goals is impeded, societies experience an increased state of anomie ([Chamlin and Cochran, 2007](#)). Faced with this anomie, an increasing number of societal members often resort to illegitimate means for achieving the prescribed goals ([Cullen et al., 2004](#)).

[Merton \(1957\)](#) treatment asserted that only one facet of the social system, the legitimate opportunity structure, explained anomie. Finding this conceptualization to be limited in its explanatory power, [Messner and Rosenfeld \(2001\)](#) and [Rosenfeld and Messner \(1997\)](#) further refined the theory to develop IAT. Specifically, Messner and Rosenfeld differentiated their work from Merton's by arguing that in addition to the legitimate opportunity structure, institutional factors also influence the emergence of anomie within a society. Contrary to Merton's view, [Messner and Rosenfeld \(1994, 2007\)](#) claimed that some societal institutions, including polity, religion, and education, may intensify societal preoccupation with material success, thus strengthening the pressure to acquire material wealth through illegitimate means. Whereas [Merton's \(1957\)](#) view of anomie theory suggests that the presence of economic

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